THE TREASURY
ANNUAL REPORT
2011-12

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Australian Government

The Treasury

Dr Martin Parkinson PSM
Secretary

The Hon Wayne Swan MP
Deputy Prime Minister and Treasurer
Parliament House
CANBERRA ACT 2600

Dear Deputy Prime Minister and Treasurer

I am pleased to present the annual report of the Treasury for the year ended 30 June 2012.

This report has been prepared in accordance with section 63 of the *Public Service Act 1999*. Subsection 63 (1) of the Act requires that the Secretary to the department is to provide a copy of the report to the agency minister for presentation to the Parliament.

As provided in subsection 63 (2) of the Act, the report has been prepared in accordance with guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit. These guidelines provide that a copy of the annual report is to be laid before each house of the Parliament on or before 31 October.

The report includes the Treasury's audited financial statements as required by section 57 of the *Financial Management and Accountability Act 1997*.

In addition, and as required by the *Commonwealth Fraud Control Guidelines*, I certify that I am satisfied that the Treasury has in place appropriate fraud control mechanisms that meet the Treasury's needs and that comply with the guidelines applying in 2011-12.

Yours sincerely

Martin Parkinson
11 October 2012

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INTRODUCTION AND GUIDE TO THE REPORT

The Treasury Annual Report 2011-12 outlines performance against outcomes, programs and performance information contained in the *Portfolio Budget Statements 2011-12*, *Portfolio Additional Estimates Statements 2011-12* and *Portfolio Supplementary Additional Estimates Statements 2011-12*.

The 2011-12 annual report includes the reporting requirements and financial accounts for the Australian Government Actuary. The financial accounts for the Foreign Investment Review Board and Takeovers Panel are also included in this report, along with limited performance reporting. More comprehensive performance reporting may be found in their respective annual reports.

Part 1 includes a summary of significant issues and developments during 2011-12, and an overview of the Treasury's performance. The departmental overview in Part 1 details the Treasury's role and functions, senior management structure, organisational structure and portfolio structure.

Part 2 provides an analysis of performance against the Treasury's policy outcome and programs.

Part 3 reports on management and accountability issues as required under the annual report guidelines.

Part 4 presents the audited financial statements of the Treasury as required under the annual report guidelines.

Part 5 includes other information as required under the annual report guidelines.

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

Other sources of information

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

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An electronic copy of this document can be located on the Treasury website at www.treasury.gov.au.

PART **ONE**

OVERVIEW

SECRETARY'S REVIEW

The Treasury has a long-standing commitment to improving the wellbeing of all Australians by delivering quality advice to government and by providing assistance in the implementation of key policy initiatives. This year has been no different. In an environment where both global economic volatility and the opportunities arising from the growth of the Asian economies remain front and centre, the Treasury has continued to provide relevant, well-argued and considered policy analysis and advice.

Significant achievements in 2011-12

The Treasury's key objective is to develop timely and robust policy advice that improves the wellbeing of all Australians, and we do this by always striving to provide the government of the day with a whole-of-economy perspective. Our advice reflects the importance of: maintaining sound macroeconomic settings; ensuring the Australian economy's fiscal sustainability; and maximising resource efficiency, competitiveness and productivity. The Treasury undertakes this work both in terms of its own responsibilities, and as a key partner to other portfolios.

The Treasury updates the Mid-Year Economic and Fiscal Outlook (MYEFO) and delivers the Budget every year. As part of that work, we are responsible for providing analysis, preparing macroeconomic forecasts, revenue costings and revenue forecasts, and providing policy advice. This year, that work took into account matters such as the evolving sovereign debt crisis in Europe, the uneven global economic recovery, domestic and international fiscal consolidation, the mining investment boom, structural reform challenges, and Australia's high terms of trade.

The department was also responsible for providing advice on, and developing legislation for, a range of tax measures, including measures associated with personal tax, superannuation and assisting small business. During 2011-12, we also provided advice on, and developed legislation for, establishing the Minerals Resource Rent Tax (MRRT) and extending the Petroleum Resource Rent Tax (PRRT), as well as increasing the tax-free threshold as part of the Clean Energy Future package and establishing a new regulator, the Australian Charities and Not-for-profits Commission.

The Treasury assisted ministers to implement elements of the Clean Energy Future Plan, which involved work across several groups. This work included providing policy advice on related legislation, household compensation, and adjustments to the tax transfer and welfare systems, as well as on establishing the Energy Security Council, developing legislation to establish the Clean Energy Finance Corporation, and preparing a range of changes to the taxation of fuel.

The Treasury also helped to deliver on other responsibilities that are shared with other portfolios or groups. We were a key contributor to the development of the Asian Century White Paper, the Gonski review of funding for schooling, aged care reform, the National Disability Insurance Scheme, the National Broadband Network, and the Prime Minister's Manufacturing Taskforce.

During 2011-12, the Treasury provided secretariat support to the Business Tax Working Group and the 2011 Tax Forum. We also continued to monitor and provide advice on the general prudential framework that applies to the banking sector, insurers and superannuation funds. Internationally, we deepened our engagement with key Asian and Pacific economies and enhanced policy advice through dialogue, cooperation, research and capacity-building.

We are also now well into implementing the recommendations of both the Strategic Review and the Women in Treasury review, which will help us build on our organisational capabilities, such as through greater business and stakeholder engagement. Our pursuit of organisational change in 2011-12 was one of the Treasury's proudest achievements, signalling that we can look inward, recognise the need for changes, and begin to adapt and enhance our strengths.

Sound macroeconomic environment

Robust macroeconomic frameworks have underpinned Australia's sustained strong economic performance, which has resulted in 21 years of uninterrupted growth. Close monitoring and analysis of economic conditions in Australia and overseas have played a vital role in maintaining this strong performance.

Throughout 2011-12, the Treasury provided advice on the performance and outlook of the Australian economy in the context of a volatile global economy. This included advice on the implications of the evolving sovereign debt crisis in Europe; the impact of introducing a carbon price on the Australian economy; the economic impact of natural disasters at home and overseas; conservative household spending behaviour; and the effect of Australia's high terms of trade and exchange rate on growth across the economy.

Recognising our growing linkages with Asian economies, the Treasury also expanded its analytical expertise in relation to regional economic developments.

By continuing to engage actively with the G20, the Treasury advanced: initiatives that strengthen the legitimacy, credibility and effectiveness of international financial institutions (particularly the International Monetary Fund and the World Bank); international standards for the regulation of the financial system; and international development outcomes. The Treasury also continued to be an active participant in the Financial Stability Board in its efforts to strengthen international regulatory financial arrangements.

Effective government spending arrangements

Effective spending arrangements are crucial to facilitating sustainable economic growth, including through policies that enhance productivity and participation, and to improving the wellbeing of Australians. As always, though, there are more demands for expenditures than there is revenue available, requiring hard trade-offs by government and the community. Advising on these trade-offs, and helping to maintain fiscal sustainability, are key responsibilities for the Treasury.

During 2011-12, the Treasury assisted the Government to deliver the 2012-13 Budget, which projected a return to surplus in 2012-13 and increasing surpluses over the forward estimates despite the weaker than expected recovery in tax receipts.

The Treasury also contributed to the development of significant social policy initiatives during 2011-12, including the National Health Reform Agreement, which was finalised with all States and Territories in August 2011; the Joint Taskforce of the National Disability Insurance Scheme; and the Gonski review of funding of schools.

Facilitating structural adjustment and cost-effective climate change mitigation were also central to the Government's economic growth agenda and, to that end, in 2011-12, the Treasury provided advice on a range of policies that address the structural pressures facing the Australian economy. This included advice on the work being undertaken by the Prime Minister's Manufacturing Taskforce, as well as on regional structural adjustment. All Treasury groups contributed to policy advice on measures aimed at facilitating cost-effective climate change mitigation.

The Treasury also established a secretariat to support the GST Distribution Review, which is examining whether the distribution of the GST can maintain Australia's ability to respond to long-term trends and structural change in the economy while conserving confidence in the financial relations of the Australian Federation. During 2011-12, the Review panel produced two interim reports, with the final report to be presented to the Treasurer by October 2012.

The Treasury is also responsible for the payment of over $90 billion per annum to the States and Territories and, in 2011-12, continued to oversee the development of, and provide advice on, the outcomes related to the Commonwealth-State agreements that frame this funding.

Effective taxation and retirement income arrangements

As with expenditure measures, the careful design of measures aimed at raising revenue can create incentives, and disincentives, for different types of behaviour. And in raising any given amount of revenue, it is critical that efforts be made to reduce the burden placed upon the community by ensuring the taxation system is as efficient as possible while delivering equitable outcomes.

During 2011-12, the Treasury provided policy advice that assisted the Government in its reforms to the tax and retirement income systems. The Treasury developed legislation that gave effect to measures announced in the 2011-12 and 2012-13 Budgets, as well as the

2011-12 MYEFO. The Treasury developed costings as an input to the medium-term analysis of initiatives announced in the 2012-13 Budget, which also included quantitative advice on changes to the fringe benefits tax on living-away-from-home allowances and benefits; consolidating dependency offsets; phasing out the mature age worker tax offset; changing the net medical expenses tax offset and duty-free allowances on tobacco; reforming superannuation; and increasing the withholding tax on managed investment trusts.

The Treasury also provided advice on, and developed legislation for, a number of other tax initiatives. These included establishing the MRRT and extending the PRRT; improving the efficiency of the research and development tax concessions; reforming taxation relief for small business; and consulting on a revised policy framework for the taxation of trust income. The Treasury also provided secretariat support to the 2011 Tax Forum and the Business Tax Working Group.

The Treasury also advised on, and developed legislation for, Australia's international tax arrangements. This work reflects efforts to maintain the integrity of the tax base while providing a competitive and modern international tax system. It also responded to the recommendations from the Board of Taxation's review of the foreign source income anti-tax-deferral regimes and the Johnson Report on Australia as a financial services centre. The department also contributed to global efforts to address tax transparency, such as by representing Australia as the Chair of the Global Forum on Transparency and Exchange of Information on Tax Matters.

Well-functioning markets

Well-functioning markets result in resources moving to the areas in which society values them the most. As such, a focus on market integrity and operation, and the effectiveness of price signals in reflecting the relative valuations society places on different activities, are critical underpinnings of fair and efficient economic outcomes.

During 2011-12, the Treasury continued to pursue regulatory and structural reforms that foster the well-functioning operation of key financial, infrastructure, energy, housing and labour markets. Areas of focus for the Treasury in 2011-12 included providing policy analysis and advice on maintaining the robustness of the financial system and in ensuring that regulatory frameworks promote macroeconomic stability and market confidence.

The Treasury continued to monitor and provide advice on the general prudential framework that applies to the banking sector, insurers and superannuation funds. The Treasury also coordinated Australia's participation in the International Monetary Fund's Financial Sector Assessment Program and participated in international forums, such as the G20 and the Financial Stability Board, to enhance regional and global financial architecture. In addition, the Treasury provided advice on foreign investment and trade policy to support Australia's national interest, while also continuing to participate in free trade agreement negotiations.

Treasury provided advice on, and prepared legislation for, reform of the financial advice industry and the implementation of a national approach to the provision of consumer credit.

In 2011-12, the Treasury also worked: on the COAG reform agenda to reduce the regulatory burden on business, which included implementing a national law for consumer protection; on housing supply and affordability; and, as the lead agency, on the multi-agency Standard Business Reporting initiative, which is a significant initiative aimed at reducing the regulatory burden on business.

Our organisation

In 2011, Treasury undertook two major reviews aimed at improving our capabilities and ability to support the Government. The intent was to ensure the most effective use of the resources entrusted to us, to engage better with our stakeholders, and to create a more inclusive workplace that offers stimulating and rewarding careers for all our staff. The Strategic Review gave us a blueprint for improving our organisational priorities, systems and capabilities, while the Progressing Women initiative (arising from the Women in Treasury review) is a suite of strategies intended to widen and deepen the pool of future leaders, and to build greater inclusivity in our organisational culture.

As a result of the two reviews, our organisational strategy function was combined with corporate services in early 2012 to form the new Corporate Strategy and Services Group. This change underlines the importance we place on delivering all corporate and governance functions in a way that supports the Treasury’s broader organisational strategy, and the significant responsibility given to the group for coordinating and implementing recommendations from the reviews.

In 2011-12, the Treasury implemented a number of recommendations from the Graduate Development Program review aimed at enhancing workforce capability and introducing a workforce planning framework to drive the development of strategies to attract, retain and develop a skilled and diverse workforce. To continue supporting and driving individual and organisational performance, the Treasury also refreshed its Performance Management System, an exercise that reinforced the value we place on performance management and the types of behaviours the Treasury seeks.

Implementing the recommendations of our reviews is the beginning of a journey of organisational change to which the Treasury is committed. This journey is not only about becoming more reflective of the community we serve, it is also about making the department a resilient, adaptive, engaged and highly capable organisation that can better meet the challenges of a rapidly changing, dynamic environment.

More broadly, as part of the Australian Public Service, our objective is to be the policy advisers of choice for Australian governments, now and into the future. To achieve this, we must be well informed about our country, its place in the world and the opportunities that gives us as a nation. We must be ready to adapt to transformations in our operating environment. We must also be united by our ethics and our sense of purpose, and always remember that we serve the Australian public through the government of the day. We strive to provide our ministers and the Government with high-level, considered and timely advice, and, to achieve this, we must ensure we effectively and openly engage with business and the broader community, as well as our colleagues from other departments, agencies and levels of government.

In achieving our objectives, it is vital that we be trusted by governments, business, the public and one another. We should collaborate generously and our culture should encourage constructive debate about ideas and innovation. The nature and importance of our work requires us to have a high-quality and diverse workforce, and the Strategic Review and Progressing Women initiative are key to ensuring that continues and improves into the future.

Finally, APS leaders are responsible for the future of our individual organisations, while also being stewards of the APS itself. To do this requires conscious and deliberate efforts to nurture the talents of our employees so they can both give their best and motivate those around them to become future leaders.

2012-13 outlook

The year ahead will bring a number of policy challenges, both internationally and domestically. Ensuring a stable and resilient macroeconomic environment and efforts to lift productivity across the economy are two key areas in which I expect the Treasury to continue to play a significant role. Adjusting to the structural change in our economy as a consequence of growth in the Asian economies will continue to require our analysis, advice and expertise.

Delivering on the Government's fiscal strategy and, in particular, helping deliver on the commitment to surpluses across the forward estimates will remain a key focus for the Treasury. In addition, we will continue to provide analysis and advice on the Government's reform agenda, such as the National Disability Insurance Scheme, school funding reform and implementation of the Clean Energy Future package. The Treasury will also be involved in the outcomes of the GST Distribution Review and the Business Tax Working Group later this year.

Internationally, 2012-13 will prove a busy and active year for the Treasury as we work towards Australia's hosting of the G20 in 2014. Commencing in December 2012 with Australia's three-year membership of the troika that guides the work of the G20, the Treasury will be engaged in organising the Finance Ministers' and Central Bank Governors' meetings, as well as related officials' meetings, while also supporting other APS colleagues in their preparation for the leaders' meeting scheduled for Brisbane in 2014. Increased engagement with the Asian region will remain a major focus for the department in all of its international activities.

The year ahead, of course, will have as many unexpected developments as those that have passed. Yet its tempo and unpredictability will, invariably, be no different. We will continually refine ways of doing things and build our capacity to support the Government and the Australian community. Our commitment to the Treasury's two recent organisational reviews is testament to this.

In concluding this section of the Annual Report, I would like to express my gratitude to all Treasury staff. They have faced the challenges before us with high-calibre professionalism, commitment and good humour. The department's achievements over the past 12 months are their achievements. And those achievements are a reflection and a distillation of the Treasury's mission: to ensure the wellbeing of all Australians.

Martin Parkinson
Secretary to the Treasury

DEPARTMENTAL OVERVIEW

THE TREASURY'S MISSION

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

POLICY OUTCOME

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

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

The Treasury has four policy groups that contribute to achieving this outcome:

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

Macroeconomic Group

Macroeconomic Group provides advice on a sound macroeconomic environment, which is an essential foundation for strong, sustainable economic growth and the improved wellbeing of Australians.

Macroeconomic Group contributes to a sound macroeconomic environment by undertaking careful monitoring and analysis of economic conditions in Australia and overseas, which forms the basis of quality macroeconomic policy advice to portfolio ministers.

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

Macroeconomic Group is also responsible for payments to international financial institutions as outlined in program 1.2 on pages 88-89.

Fiscal Group

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

Effective spending measures should meet their stated objectives, minimise behavioural distortions and deliver significant economic and other benefits compared with costs.

Fiscal Group provides policy advice to portfolio ministers to promote government decisions that further these objectives.

Fiscal Group takes a whole-of-government and whole-of-economy perspective in developing its advice on the fiscal strategy and spending arrangements across and within portfolios.

Fiscal Group is also responsible for the efficient payment of general revenue assistance, National Specific Purpose Payments and National Partnership Payments to the States and Territories as outlined in programs 1.4 to 1.10 on pages 92-105.

Revenue Group

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

Revenue Group takes a whole-of-government and whole-of-economy perspective in developing its tax and retirement income advice.

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

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

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

Markets Group

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

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

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

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

Markets Group is also responsible for payments to support markets and business as outlined in program 1.3 on pages 90-91.

Corporate Strategy and Services Group

To support the Treasury's policy outcomes, Corporate Strategy and Services Group provides key services, systems and facilities that provide essential organisational support to the groups.

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

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

TREASURY PEOPLE VALUES

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

Treasury people:

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

Treasury people management principles are:

- open, two-way communications at all levels;
- to clearly define accountabilities;
- work performance is the basis for remuneration, which is determined by fair and transparent processes; and
- to facilitate an appropriate work and private life balance.

THE TREASURY'S ROLE AND CAPABILITIES

The Treasury's mission statement reflects the breadth of its ministers' responsibilities and underscores the key importance for the Treasury of a strong relationship with its ministers, built on trust and effective advice. As a central policy agency, the Treasury is expected to anticipate and analyse policy issues from a whole-of-economy perspective, understand government and stakeholder circumstances, and respond rapidly to changing events and directions. As such, the Treasury's interests are broad and diverse.

The Treasury is engaged in a wide range of issues that affect the lives of Australians, from macroeconomic policy settings to microeconomic reform, social policy, tax policy and international agreements and forums. The Treasury has a program delivery role in supporting markets and business, and providing Commonwealth payments to the State and Territory governments.

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

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

Treasury brings a whole-of-economy approach to providing advice to government based on an objective and thorough analysis of options. To facilitate that analysis, we have identified five dimensions that directly or indirectly have important implications for wellbeing and are particularly relevant to Treasury. These dimensions are:

- The set of opportunities available to people. This includes not only the level of goods and services that can be consumed, but good health and environmental amenity, leisure and intangibles such as personal and social activities, community participation and political rights and freedoms.
- The distribution of those opportunities across the Australian people. In particular, that all Australians have the opportunity to lead a fulfilling life and participate meaningfully in society.

- The sustainability of those opportunities available over time. In particular, consideration of whether the productive base needed to generate opportunities (the total stock of capital, including human, physical, social and natural assets) is maintained or enhanced for current and future generations.
- The overall level and allocation of risk borne by individuals and the community. This includes a concern for the ability, and inability, of individuals to manage the level and nature of the risks they face.
- The complexity of the choices facing individuals and the community. Our concerns include the costs of dealing with unwanted complexity, the transparency of government and the ability of individuals and the community to make choices and trade-offs that better match their preferences.

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

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

Our organisational capabilities are:

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

FINANCIAL PERFORMANCE

The Treasury received an unqualified audit report on the 2011-12 financial statements from the Australian National Audit Office. These statements can be found in Part 4 on pages 150-259.

Departmental

The Treasury ended 2011-12 with an attributable deficit of $11.6 million, compared to a $2.4 million surplus in 2010-11. Employee expenses increased by $15.8 million from 2010-11, which was associated with the cost of voluntary redundancies offered to staff in the first half of 2012, and the significant drop in the bond rate resulting in a large increase of long service leave expenses.

The Treasury's net asset position decreased by $23.7 million in 2011-12, mainly due to the reduction of appropriation receivable used to pay for the voluntary redundancies and the increase in the long service leave provision as a result of the bond rate decrease.

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

Administered

The Treasury incurred $86.9 billion in administered expenses in 2011-12 compared to $86.9 billion in 2010-11. There was a small reduction in grant expenses to the States and Territories that the Treasury provides under the *Intergovernmental Agreement on Federal Financial Relations*.

The Treasury's administered net assets increased by $3.3 billion in 2011-12. This is mainly due to an increase in the value of financial assets and a decrease in provisions and payables.

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

Figure 1: Treasury senior management structure (as at 30 June 2012)

Secretary: Dr Martin Parkinson PSM

Executive Director (Policy Coordination and Governance): Mr Barry Sterland

Corporate Strategy and Services Group
Group General Manager: Mr Steve French

Financial and Facilities Management Division
General Manager: Mr Matthew King

Information Management and Technology Division
General Manager: Mr Peter Alexander

Ministerial and Communications Division
General Manager: Ms Mary Balzary

People and Organisational Strategy Division
General Manager: Ms Marisa Purvis-Smith

Stakeholder Engagement
General Manager: Ms Jan Harris

Macroeconomic Group: Executive Director (Domestic), Dr David Gruen

Macroeconomic Group: Executive Director (International/Special Envoy), Mr Mike Callaghan

Domestic Economy Division
General Manager: Dr Steve Morling

Macroeconomic Policy Division
General Manager: Mr James Kelly

Macroeconomic Modelling Division
General Manager: Mr Russ Campbell

International and G20 Division
General Manager: Mr Jason McDonald

International Finance and Development Division
General Manager: Ms Sue Vroombout

Overseas Operations

Papua New Guinea
Mr Colin Johnson

Solomon Islands
Mr Paul Flanagan

Indonesia
Mr Jason Allford

Overseas Posts

Washington DC
Ms Amanda Sayegh

OECD (Paris)
Mr Matthew Flavel

London
Ms Kerstin Wijeyewardene

Tokyo
Ms HK Holdaway

Beijing
Mr Adam McKissack

Jakarta
Mr Trevor Thomas

New Delhi
Mr Matt Crooke

Fiscal Group: Executive Director, Mr Nigel Ray

Budget Policy Division
General Manager: Mr John Lonsdale

Commonwealth-State Relations Division
General Manager: Mr Peter Robinson

Industry, Environment and Defence Division
General Manager: Ms Luise McCulloch

Social Policy Division
General Manager: Mr Chris Foster (A/g)

Review of GST Distribution Secretariat
General Manager: Mr Paul McCullough

Revenue Group: Executive Director, Mr Rob Heferen

International Tax and Treaties Division
General Manager: Mr Tony McDonald

Tax Analysis Division
General Manager: Mr Roger Brake

Business Tax Division
General Manager: Ms Christine Barron

Tax System Division
General Manager: Mr Gerry Antioch

Personal and Retirement Income Division
General Manager: Mr Nigel Murray (A/g)

Indirect, Philanthropy and Resource Tax Division
General Manager: Ms Brenda Berkeley

Board of Taxation Secretariat
Secretary: Mr Roger Paul

Markets Group: Executive Director, Mr Jim Murphy

Foreign Investment and Trade Policy Division
General Manager: Ms Sam Reinhardt

Financial System Division
General Manager: Mr Ian Beckett (A/g)

Infrastructure Division
General Manager: Mr Brenton Thomas

Corporations and Capital Markets Division
General Manager: Mr David Woods

Competition and Consumer Policy Division
General Manager: Mr Geoff Francis

Retail Investor Division
General Manager: Ms Irene Sim

Australian Government Actuary
General Manager: Mr Peter Martin

Takeovers Panel
Director: Mr Allan Bulman

Figure 2: Treasury outcome and program structure (as at 30 June 2012)

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

Figure 3: Treasury portfolio outcome and program structure (as at 30 June 2012)

Portfolio Minister — Deputy Prime Minister and Treasurer
The Hon Wayne Swan MP
Assistant Treasurer
The Hon David Bradbury MP
Minister for Financial Services and Superannuation
The Hon Bill Shorten MP
Minister for Housing
The Hon Brendan O'Connor MP
Parliamentary Secretary to the Treasurer
The Hon Bernie Ripoll MP

Department of the Treasury
Secretary: Dr Martin Parkinson

Outcome 1:	**Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations**
Program 1.1:	Department of the Treasury
Program 1.2:	Payments to International Financial Institutions
Program 1.3:	Support for Markets and Business
Program 1.4:	General Revenue Assistance
Program 1.5:	Assistance to the States for Healthcare Services
Program 1.6:	Assistance to the States for Schools
Program 1.7:	Assistance to the States for Skills and Workforce Development
Program 1.8:	Assistance to the States for Disabilities Services
Program 1.9:	Assistance to the States for Affordable Housing
Program 1.10:	National Partnership Payments to the States

Australian Bureau of Statistics
Statistician: Mr Brian Pink

Outcome 1:	**Informed decisions, research and discussion within governments and the community by leading the collection, analysis and provision of high quality, objective and relevant statistical information**
Program 1.1:	Australian Bureau of Statistics

Australian Competition and Consumer Commission
Chairman: Mr Rod Sims

Outcome 1:	**Lawful competition, consumer protection, and regulated national infrastructure markets and services through regulation, including enforcement, education, price monitoring and determining the terms of access to infrastructure services**
Program 1.1:	Australian Competition and Consumer Commission

Australian Office of Financial Management
Chief Executive Officer: Mr Robert Nicholl

Outcome 1:	**The advancement of macroeconomic growth and stability, and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government**
Program 1.1:	Australian Office of Financial Management

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

Australian Prudential Regulation Authority

Chairman: Dr John Laker AO

Outcome 1:	**Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality**
Program 1.1:	Australian Prudential Regulation Authority

Australian Securities and Investments Commission

Chairman: Mr Greg Medcraft

Outcome 1:	**Improved confidence in financial market integrity and protection of investors and consumers through research, policy, education, compliance and deterrence that mitigates emerging risks**
Program 1.1:	Research, policy, compliance, education and information initiatives
Program 1.2:	Enforcement/deterrence
Outcome 2:	**Streamlined and cost-effective interaction and access to information for business and the public, through registry, licensing and business facilitation services**
Program 2.1:	Legal infrastructure for companies and financial services providers
Program 2.2:	Banking Act and Life Insurance Act, unclaimed moneys and special accounts

Australian Taxation Office

Commissioner: Mr Michael D'Ascenzo AO

Outcome 1:	**Confidence in the administration of aspects of Australia's taxation and superannuation systems through helping people understand their rights and obligations, improving ease of compliance and access to benefits, and managing non-compliance with the law**
Program 1.1:	Australian Taxation Office
Program 1.2:	Tax Practitioners Board
Program 1.3:	Australian Business Register
Program 1.4:	Australian Valuation Office
Program 1.5:	Product Stewardship for Oil
Program 1.6:	Cleaner Fuels Grant Scheme
Program 1.7:	Australian Screen Production Incentive
Program 1.8:	Research and Development Tax Offset
Program 1.9:	Private Health Insurance Rebate
Program 1.10:	Superannuation Co-contribution Scheme
Program 1.11:	Superannuation Guarantee Scheme
Program 1.12:	Fuel Tax Credits Scheme
Program 1.13:	Education Tax Refund
Program 1.14:	National Urban Water and Desalination Plan
Program 1.15:	National Rental Affordability Scheme
Program 1.16:	First Home Saver Accounts
Program 1.17:	Baby Bonus
Program 1.18:	Interest on Overpayment and Early Payments of Tax
Program 1.19:	Bad and Doubtful Debts and Remissions
Program 1.20:	Other Administered

Commonwealth Grants Commission

Secretary: Mr John Spasojevic

Outcome 1:	**Informed Government decisions on fiscal equalisation between the States and Territories through advice and recommendations on the distribution of GST revenue and health care grants**
Program 1.1:	Commonwealth Grants Commission

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

Corporations and Markets Advisory Committee	
Convenor: Ms Joanne Rees	
Outcome 1:	**Informed decisions by Government on issues relating to corporations regulation and financial products, services and markets through independent and expert advice**
Program 1.1:	Corporations and Markets Advisory Committee

Inspector-General of Taxation	
Inspector-General: Mr Ali Noroozi	
Outcome 1:	**Improved tax administration through community consultation, review and independent advice to Government**
Program 1.1:	Inspector-General of Taxation

National Competition Council	
President: Mr David Crawford	
Outcome 1:	**Competition in markets that are dependent on access to nationally significant monopoly infrastructure, through recommendations and decisions promoting the efficient operation of, use of and investment in infrastructure**
Program 1.1:	National Competition Council

Office of the Auditing and Assurance Standards Board	
Chairman: Ms Merran Kelsall	
Outcome 1:	**The formulation and making of auditing and assurance standards that are used by auditors of Australian entity financial reports or for other auditing and assurance engagements**
Program 1.1:	Auditing and Assurance Standards Board

Office of the Australian Accounting Standards Board	
Chairman: Mr Kevin Stevenson	
Outcome 1:	**The formulation and making of accounting standards that are used by Australian entities to prepare financial reports and enable users of these reports to make informed decisions**
Program 1.1:	Australian Accounting Standards Board

Productivity Commission	
Chairman: Mr Gary Banks AO	
Outcome 1:	**Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective**
Program 1.1:	Productivity Commission

Royal Australian Mint	
Chief Executive Officer: Mr Ross MacDiarmid	
Outcome 1:	**The coinage needs of the Australian economy, collectors and foreign countries are met through the manufacture and sale of circulating coins, collector coins and other minted-like products**
Program 1.1:	Royal Australian Mint

PART **TWO**

REPORT ON PERFORMANCE

INTRODUCTION

The report on performance covers the Treasury's departmental and administered items for 2011-12.

Departmental items are the goods and services the department provides for, and on behalf of, the Government. This involves the use of assets, liabilities, revenues and expenses controlled or incurred by the Treasury in its own right. Program 1.1 relates mainly to departmental items.

Administered items are revenues, expenses, assets or liabilities managed by the Treasury on behalf of the Government and include subsidies, grants and benefits. Programs 1.2 to 1.10 relate to administered items.

The Treasury's 2011-12 performance is reported at the program level for its policy outcome:

- Outcome 1: Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.

Performance outcomes for each program are reported against the objectives, deliverables and key performance indicators published in the *Treasury Portfolio Budget Statements 2011-12*, *Treasury Portfolio Additional Estimates Statements 2011-12* and *Treasury Portfolio Supplementary Additional Estimates Statements 2011-12*.

The key strategies for 2011-12 are to provide advice on:

- macroeconomic policy, based on careful monitoring and analysis of economic conditions in Australia and overseas;
- fiscal strategy, budget priorities and measures, debt and balance sheet management, as well as a budget coordination role;
- Commonwealth-State financial policy, industry, environment and defence policy and housing, social and income support policy;
- taxation and retirement income arrangements consistent with the Government's reform priorities;
- policies that promote competitive, efficient markets and that work to enhance consumer wellbeing, deliver a secure financial system and sound corporate practices, and ensure inward foreign investment consistent with Australia's national interest;
- policies that promote well regulated, competitive and efficient infrastructure and address supply constraints in the housing market that impact on housing affordability;
- a range of international economic policy issues, including strengthening multilateral regimes underpinning open trade and capital flows, supporting developing countries' development aspirations, and shaping the evolution of regional economic architecture; and
- administration of a range of payments to the States and Territories, which are reported in programs 1.4 to 1.10.

An assessment of this advice is included under each program.

PROGRAM 1.1: DEPARTMENT OF THE TREASURY

The Treasury has four policy groups that contribute to the achievement of program 1.1:

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

These groups are supported by Corporate Strategy and Services Group, which provides key services, systems and facilities that provide essential organisational support to the policy groups.

PROGRAM OBJECTIVE

The objectives of program 1.1 are to:

- promote a sound macroeconomic environment by monitoring and assessing economic conditions and prospects both in Australia and overseas, and provide advice on macroeconomic policy including fiscal and monetary policy;
- promote effective government spending arrangements that contribute to overall fiscal outcomes, influence strong sustainable economic growth and improve the wellbeing of Australians;
- develop effective taxation and retirement income arrangements consistent with the Government's reform priorities; and
- ensure well-functioning markets by providing advice on policies that promote competitive, efficient markets and that work to enhance consumer and investor wellbeing, a secure financial system and sound corporate practices, and foreign investment consistent with Australia's national interest.

PROGRAM KEY PERFORMANCE INDICATORS

The key performance indicators are:

- advice that meets the Government's needs in administering its responsibilities and making and implementing decisions. Advice is timely, of high quality, and is based on an objective and thorough understanding of issues and a whole-of-government perspective. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through feedback mechanisms;

- timely, high quality, accurate and transparent Budget, Mid-Year Economic and Fiscal Outlook (MYEFO) and Final Budget Outcome documents that meet the expectations of the Government, the Parliament and the public. The budget preparation and coordination process is subject to an annual evaluation;
- published reports and other information that stimulate and inform government and public debate through robust analysis, modelling and research. Publications are timely, of high quality and widely available to the public; and
- legislation progressed by the Treasury is in accordance with the principles of good law design and is delivered according to government priorities:
  - the majority of prospective tax and retirement income legislation is ready to be introduced into Parliament within 12 months, and the majority of retrospective tax and retirement income legislation within six months of the Government announcing it, and
  - at least one tax or retirement income legislative measure is the subject of a post-implementation review annually.

An assessment of the key performance indicators is included under the group responsible for the corresponding objective.

MACROECONOMIC GROUP

Overview

Macroeconomic Group contributed to a strong macroeconomic environment in Australia by providing quality policy advice and sound analysis of both domestic and international developments affecting the Australian economy. The group advised the Government on a wide range of matters relating to the performance of the Australian economy, including Australia's current economic conditions and outlook, monetary and fiscal policies, and current and prospective international economic issues.

Macroeconomic Group examined the implications of subdued growth in the advanced economies, and developments in key emerging economies, the evolving sovereign debt crisis in Europe, the impact of introducing a carbon price on the Australian economy, natural disasters at home and abroad, conservative household spending behaviour and the effect of the high terms of trade and exchange rate on Australia's economic growth and labour market performance.

Macroeconomic Group continued to contribute to improving the global economic environment and advancing Australia's domestic and international interests. The group supported active Australian engagement in global and regional forums, helped utilise Australia's strong bilateral relationships and worked directly with foreign governments, including through Treasury's overseas posts. The group expanded its strategic analysis and advice on developments within key regional economies, particularly China and India.

Macroeconomic Group, through active engagement with the G20, advanced important initiatives to work towards the achievement of a strong, sustainable and balanced global economy. Specific initiatives sought to strengthen the legitimacy, credibility and effectiveness of international financial institutions, strengthen international standards for the regulation of the financial system, and improve international development outcomes.

Through its activities, Macroeconomic Group assisted Treasury ministers in their work and contributed to improving the wellbeing of the Australian people.

Group deliverables

Macroeconomic Group's key deliverables are to advise on:

- domestic and international developments affecting the Australian economy and forecasts of the direction of the Australian and international economies;
- the setting of sound macroeconomic policy;
- Australia's involvement in the G20 to enhance cooperation on common international economic policy challenges, and preparation for Australia hosting the G20 in 2014;
- supporting and enhancing the effectiveness of international financial institutions, particularly the International Monetary Fund (IMF) and the World Bank;
- ongoing work with the Indonesian Government through the Australia-Indonesia Partnership for Reconstruction and Development;
- improving the linkages between the priorities of the G20, the Asia-Pacific Economic Cooperation (APEC) process, the Asia-Europe Meeting and the East Asia Summit processes;
- ongoing economic analysis and deeper engagement strategies with China and India, reflecting the importance of these countries in the international economy; and
- government initiatives to encourage broad-based, stable and inclusive economic growth and develop well-functioning economic ministries in the south Pacific.

Group outcomes

Macroeconomic Group's key outcomes were:

- providing analysis, preparing macroeconomic forecasts, and assisting in the formulation of policy solutions, taking into account domestic and international fiscal consolidation, the evolving sovereign debt crisis in Europe, Australia's high terms of trade and exchange rate, the impacts of the Clean Energy Future Plan, the uneven global economic recovery, and structural reform challenges;
- contributing to the development of the Asian Century White Paper and assisting the work of the Prime Minister's Manufacturing Taskforce;

- releasing an update to the *Strong growth, low pollution: modelling a carbon price* (SGLP) report in September 2011 and providing advice and analysis on the carbon pricing mechanism for the 2012-13 Budget;
- delivering presentations and published material, including economic forecasts and analysis, in budget papers and the Treasury's *Economic Roundup* to increase public awareness of economic issues and developments;
- assisting the Government to manage and influence changing global conditions and advance Australia's international economic interests through engagement with international and regional institutions and forums; and
- broadening and deepening engagement with key Asian and Pacific economies and contributing to improved policy outcomes through policy dialogue, cooperation, research and capacity building.

Analysis of performance

During 2011-12, the Treasury advised the Deputy Prime Minister and Treasurer, other members of the Government and relevant stakeholders on a range of macroeconomic issues:

- *Economic and Fiscal Outlook.* The Treasury provided analysis of the Australian and international economic outlook, including the Australian fiscal outlook, and prepared macroeconomic forecasts.
- *Monetary and Fiscal Policy.* The Treasury monitored domestic and international economic, financial and policy developments to assess their implications for macroeconomic policy settings.
- *Economic growth, living standards and wellbeing.* The Treasury analysed drivers of the Australian economy and factors likely to influence medium-term economic performance, including productivity and labour force participation rates. This analysis was used to develop policy recommendations to improve Australia's economic growth potential, living standards and wellbeing.

Economic modelling

The Treasury's economic modelling contributed to the development of evidence-based policy analysis. Economic modelling, such as computable general equilibrium modelling, enables complex implications of policies and developments to be assessed and used to inform policy design.

The Treasury provided modelling advice and support on a wide range of government policy issues, including in relation to work around the Asian Century White Paper and certain tax and COAG reforms, while also continuing to use its modelling capabilities to support more general macroeconomic analysis and forecasting.

In 2011-12, the Treasury published the SGLP report, which provided comprehensive modelling of the international, domestic, sectoral and distributional effects of a carbon price. An update to the report was released in September 2011 to reflect the main features of the Clean Energy

Future package. Advice and analysis has also been provided on the carbon pricing mechanism for the 2012-13 Budget and on emissions analysis with the Department of Climate Change and Energy Efficiency.

Economic forecasting

Economic forecasts prepared by the Treasury informed policy settings and underpinned expenditure and revenue budget estimates. For policy formulation purposes, macroeconomic forecasts provided an assessment of prospective developments within the economy and the risks surrounding the economic outlook.

The Treasury's economic forecasts are subject to discussion and quality assurance through the Joint Economic Forecasting Group. This group, chaired by the Treasury, comprises the Reserve Bank of Australia (RBA), the Department of the Prime Minister and Cabinet, the Department of Finance and Deregulation, and the Australian Bureau of Statistics (ABS). These discussions, together with information gained from liaison with the private sector and other specialist departments and organisations, such as the Bureau of Resources and Energy Economics, helped in the development of the final version of the forecasts.

Treasury officials liaised extensively with the ABS, both formally through ongoing representation on the Australian Statistics Advisory Council and the Economic Statistics User Group, and informally through regular discussions, to review the quality and appropriateness of economic data.

The Treasury's forecasting activity focused on 2011-12, 2012-13 and 2013-14, with forecasts published in the 2011-12 MYEFO and the 2012-13 Budget.

2012-13 Budget papers

The Treasury contributed to public awareness and debate on economic policy issues through its economic analysis in the annual budget papers and the 2011-12 MYEFO.

Published forecasts were accompanied by a written assessment of the economic outlook to help inform the public of key developments in the domestic and international economies and their likely effects on short-term economic growth.

The 2011-12 MYEFO and 2012-13 Budget presented a favourable outlook for the Australian economy, but noted the divergence in conditions facing different sectors. Strong demand for Australia's mineral and energy exports continued to support historically high commodity prices and drive record levels of investment in the resources sector. However, conditions in some parts of the economy were expected to remain challenging, with unsettled global conditions, the high Australian dollar and changes in expenditure patterns towards services expected to weigh heavily on some sectors. The economy was expected to grow at around its trend rate over the forecast horizon, unemployment was forecast to remain low and inflation was expected to remain well contained.

Statement 4 of Budget Paper No. 1 *Building Resilience Through National Saving* discussed Australia's path to building its national saving and the role of government policy in continuing this transition. Consistent with the Government's medium-term fiscal strategy, the paper supported the view that improvements in government saving are desirable with the economy forecast to grow around trend and with close to full employment. The paper predicted that high levels of saving would likely be maintained over coming years and would improve economic resilience to external shocks.

As part of the 2012-13 Budget, the Government provided the Treasury with $45.2 million over four years for the organisation and logistics of G20 Finance Ministers' and Central Bank Governors' meetings and related officials' meetings associated with Australia's host year, and for related policy development on economic and financial issues.

Economic publications and speeches

The Treasury's *Economic Roundup* included a regular summary of the key findings from the Treasury's Business Liaison Program as well as research articles and speeches that provided detailed analysis and policy recommendations on:

- food prices in the Pacific;
- India's long-term growth;
- the Government's balance sheet;
- China's demand for mineral and energy commodities; and
- reforms to consumer financial protection.

Senior Treasury officials assisted broader understanding of domestic and international macroeconomic issues by speaking with a range of organisations on topics including:

- the economic outlook;
- macroeconomic forecasting;
- national saving;
- long-term fiscal sustainability;
- the European sovereign debt crisis;
- the rise of China, India and other emerging economies;
- the resources boom and structural change;
- structural change and productivity;
- sovereign wealth funds;
- wellbeing and living standards; and
- the challenges facing Australia over the next decade.

Speeches were delivered to a wide range of organisations including:

- the Ai Group;
- the American Chamber of Commerce in Australia;
- the Australian Business Economists;
- the Australia-Israel Chamber of Commerce;
- the Australian National University;
- the Committee for Economic Development of Australia;
- the New Zealand Treasury;
- the Reserve Bank of Australia; and
- the University of Melbourne.

International policy advice

The Treasury worked towards enhancing international economic cooperation, particularly through the G20, helped advance Australia's international priorities, and provided high quality economic analysis and advice on the implications for the Australian economy of international developments, including the evolving European sovereign debt crisis, the weak US economic recovery and developments in China.

To achieve these outcomes, the Treasury supported active Australian participation in global and regional forums, assisted the Deputy Prime Minister and Treasurer at international meetings, and helped strengthen bilateral relations. Treasury officials posted to Washington DC, London, Beijing, New Delhi, Jakarta, Tokyo, the IMF and the Organisation for Economic Co-operation and Development (OECD) contributed to analysis on regional economic and policy developments, helped strengthen relations with key institutions in their countries of accreditation and facilitated high-level meetings.

G20

The Treasury worked with the Deputy Prime Minister and Treasurer to help shape the G20 agenda and to influence the outcomes of the G20 Cannes and Los Cabos Leaders' Summits, as well as the four G20 Finance Ministers' and Central Bank Governors' meetings held during 2011-12.

Australia, through the Treasury, co-chaired (with Turkey) the G20 Working Group on International Financial Architecture in 2012. In the lead up to the Los Cabos Summit, this working group advised G20 finance ministers on:

- an agreed G20 outcome to increase IMF resources by more than US$450 billion;
- ways to enhance IMF surveillance;
- efforts to ensure full and timely implementation of the 2010 IMF Quota and Governance Reforms to improve IMF credibility, legitimacy and effectiveness; and

- measures to strengthen the international financial system, including new bank capital and liquidity standards.

The Treasury was also actively involved in the G20 working groups dealing with:

- strengthening the Framework for Strong, Sustainable and Balanced Growth;
- reforming the international monetary system;
- strengthening the international standards for the regulation of financial systems;
- improving the transparency and efficiency of commodity markets; and
- strengthening international development outcomes.

Financial Stability Board

The Treasury participates in the plenary meetings of the Financial Stability Board (FSB) and is a member of the FSB's Standing Committee on Standards Implementation, Standing Committee on Supervisory and Regulatory Cooperation, and the Regional Consultative Group for Asia. The Treasury advised the Government on the key issues considered by the FSB, including the FSB's peer review of the Australian financial system (released in September 2011) and efforts to expand and formalise FSB outreach through regional consultative groups.

International financial institutions

The Treasury supported the IMF in its role of ensuring the stability of the international monetary system. This occurred through the IMF Executive Board, attendance at the IMF-World Bank Spring and Annual Meetings, and participation in relevant G20 working groups.

During 2011-12, the Treasury ensured that Australia fulfilled its commitment made at the G20 Summit in Cannes to increase the resources available to the IMF by pledging an additional US$7 billion in a contingent bilateral loan to the IMF.

The Treasury supported the World Bank Group's role in improving the living standards of the world's poor by providing advice to the World Bank's Executive Board and supporting Australia's attendance at the World Bank Spring and Annual meetings. The Treasury facilitated the first payment to the International Bank for Reconstruction and Development's capital increases, agreed by Bank members in 2010.

The Treasury also hosted visits by former World Bank President Robert Zoellick and Managing Director Sri Mulyani Indrawati.

Regional development banks

The Treasury continued to support the Asian Development Bank's (ADB) efforts to promote development in the Asia-Pacific region. The Treasury encouraged strong contributions to the next replenishment of the Asian Development Fund and supported reforms underway at the ADB to ensure accountability and effectiveness.

The Treasury contributed to the work of the European Bank for Reconstruction and Development (EBRD) in assisting economies in Europe and Central Asia transition to open, market economies by providing support to Australia's representative on the Board of Directors. The Treasury undertook legislative and treaty processes to facilitate the EBRD's expansion to the Southern and Eastern Mediterranean region.

The Treasury further contributed to the Government's consideration of whether Australia should become a member of the African Development Bank (AfDB) Group.

Official development assistance

The Treasury provided advice on general development and aid issues including Australia's multilateral and bilateral aid programs, new expenditure initiatives, and the framework for Australia's aid budget. The Treasury contributed to the whole-of-government process for the Government's response to the Independent Review of Aid Effectiveness. This included the development of a Comprehensive Aid Policy Framework.

Asia

To strengthen Australia's understanding of regional economic developments and to improve effectiveness and linkages between the G20 and regional forums, the Treasury continued to broaden and deepen its engagement with key regional organisations and partners by:

- working to improve the effectiveness of the APEC Finance Ministers' Process and supporting Australia's engagement with the Asia-Pacific region by undertaking technical workshops to build support for the Asia Regional Fund Passport and facilitating contributions to the APEC Pilot Public Private Partnerships Mentoring Scheme;
- working to strengthen regional financial cooperation by supporting the sustained establishment of a finance ministers' process under the East Asia Summit;
- supporting the Deputy Prime Minister and Treasurer at bilateral and multilateral meetings with senior Chinese officials, including the Finance Minister, and with senior Hong Kong officials; and further Treasury's engagement with key Chinese policymaking agencies, including an annual bilateral Macroeconomic Dialogue with the National Development and Reform Commission in Beijing;
- hosting the fourth annual India-Australia economic policy dialogue with the Indian Ministry of Finance as well as providing support for various senior visits both in India and in Australia;
- supporting economic stability in Indonesia through the development of A$1 billion contingent loan facility which Indonesia can access if global financial conditions deteriorate such that Indonesia's borrowing costs reach unsustainable levels. Treasury has also worked closely with the Fiscal Policy Office of the Indonesian Ministry of Finance through the Government Partnership Fund to strengthen Indonesian economic policy advising capabilities and develop lasting institutional relationships with the Ministry;
- hosting the eighth annual economic policy dialogue with the Japanese Ministry of Finance; and

- hosting counterparts from the Korean Ministry of Strategy and Finance for the annual Australia-Korea Strategic Economic Dialogue.

Pacific region

The Treasury continued to promote economic management and development in the Pacific by undertaking research and analysis and by providing policy advice on a range of Australian Government Pacific-related policy issues. The Treasury also supported the attendance of the Parliamentary Secretary to the Treasurer at the 2011 Pacific Islands Forum Economic Ministers' Meeting.

Treasury officials were deployed to Solomon Islands and Papua New Guinea (PNG) to assist in building sustainable and effective economic ministries, where their role involved providing advice and support to local officials on economic and fiscal issues. The Treasury also provided support to the Seychelles through a seconded official to AusAID.

The Treasury provided assistance to PNG, under the *Joint Understanding between PNG and Australia on further cooperation on the PNG Liquefied Natural Gas Project*, to assist PNG in the establishment of a transparent and well governed sovereign wealth fund.

The Treasury hosted two officials from Solomon Islands and also supported an official from the Australian Treasury to the PNG Treasury for a short-term program.

FISCAL GROUP

Overview

Fiscal Group aims to ensure government spending arrangements are effective and that key social and economic reforms are supported. This is crucial to facilitating strong, sustainable economic growth and the improved wellbeing of Australians. Advice to portfolio ministers from the Treasury assists in formulating, implementing and explaining government spending decisions. Fiscal Group provides advice on:

- the overall fiscal strategy and budget policies, and coordination of the budget and other reports required under the *Charter of Budget Honesty Act 1998* (the Charter);
- Commonwealth-State financial policy, and arrangements related to state and territory fiscal and tax issues, including through the ongoing management of the *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement);
- policy development in industry, regional, environment, climate change, defence and national security; and
- social and economic policy issues, including income support and family payments, health, disability, Indigenous welfare, immigration, education and the labour market.

Fiscal Group works with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government on industry, climate change and the environment, and defence and national security. Fiscal Group also works with other departments in areas such as early childhood and families, education and skills, social housing, family payments, Indigenous policy, disability policy, labour markets, immigration, health policy and aged care. While other departments have primary responsibility for policy and programs in these areas, Fiscal Group focuses on improving wellbeing, including through lifting participation and productivity to help ensure sustainable economic growth, taking account of fiscal policy objectives.

During 2011-12, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy approaches (including implementation of the Clean Energy Finance Corporation and support for the Prime Minister's Manufacturing Taskforce), and provided advice for Cabinet, the Deputy Prime Minister and Treasurer (for his participation in Cabinet and the budget processes) and for the other Treasury portfolio ministers.

Fiscal Group provided advice on Commonwealth-State financial policy, arrangements related to state and territory fiscal and tax issues, and managed the administration of payments to the States and Territories (the States). Since 1 January 2009, under the Intergovernmental Agreement, the Treasury has been responsible for administering National Specific Purpose Payments (National SPPs), National Partnership payments, goods and services tax (GST) payments and other general revenue assistance to the States. Details of these payments can be found in programs 1.4 to 1.10.

Group deliverables

Fiscal Group's key deliverables are advice on:

- fiscal strategy that aims to ensure fiscal sustainability over the economic cycle;
- effective government spending arrangements that contribute to improving the wellbeing of Australians;
- strategies that address intergenerational challenges, including social, fiscal and environmental sustainability, and the development and use of skills; and
- Commonwealth-State financial relations, including the progress of the COAG reform agenda.

Fiscal Group also coordinates the preparation of the Commonwealth Budget and other documents required under the Charter and supports Commonwealth-State relations through the coordination and delivery of various Commonwealth-State forums.

In addition, Fiscal Group provides secretariat support to the GST Distribution Review.

Group outcomes

In 2011-12, Fiscal Group's key outcomes were:

- advising on the implementation of the Clean Energy Future package and the Clean Energy Finance Corporation;
- advising on the fiscal outlook and delivering the Government's commitments on fiscal policy;
- advising on budget priorities consistent with the medium-term fiscal strategy;
- preparing, with the Department of Finance and Deregulation, *the Final Budget Outcome 2010-11* (September 2011), *the Mid-Year Economic and Fiscal Outlook (MYEFO) 2011-12* (November 2011) and the 2012-13 Budget (May 2012).
- advising the Deputy Prime Minister and Treasurer, in consultation with the Australian Office of Financial Management (AOFM), on debt issuance and debt policy issues;
- advising on operational issues related to the Future Fund and the three Nation-building Funds;
- advising on issues associated with the establishment of a Parliamentary Budget Office (PBO);
- continuing to implement the framework for federal financial relations, which commenced on 1 January 2009, including advising on the development of new National Partnerships and other agreements;
- payments to the States totalling over $85.8 billion including five National SPPs (in healthcare, schools, skills and workforce development, disability services and affordable housing), GST payments and other general revenue assistance and National Partnership payments;
- providing secretariat support to the GST Distribution Review;
- advising on and monitoring, the First Home Owners Boost;
- contributing to progressing the first stage of the National Disability Insurance Scheme and the National Injury Insurance Scheme;
- providing secretariat support for the Advisory Panel on the Economic Potential of Senior Australians, and working with other departments to develop the Government's response to the Panel's final report;
- advising on industry, regional, climate change and environment policy, and on defence and national security matters;
- advising on social, education, disability, Indigenous, labour market, immigration and health policy and aged care; and
- establishing a Centre for Market Design in collaboration with the Victorian Department of Treasury and Finance and the University of Melbourne.

Analysis of performance

Advice on the fiscal and budget strategies

During 2011-12, the Treasury provided advice to the Deputy Prime Minister and Treasurer and to other portfolio ministers on the Australian Government's budget position over the forward estimates and the medium term, to inform overall policy settings and to provide context for the Government's decision-making. The fiscal outlook was updated in the 2011-12 MYEFO and the 2012-13 Budget.

As fiscal estimates are a joint responsibility, the Treasury worked extensively with the Department of Finance and Deregulation, the Australian Taxation Office (ATO) and other government departments and agencies. Assessments of the budget position incorporated changes to the economic outlook, so advice was based on the most reliable and up-to-date information available at the time the economic statements and budget were prepared.

The 2011-12 MYEFO was released by the Deputy Prime Minister and Treasurer and Minister for Finance and Deregulation on 9 November 2011, and updated the fiscal estimates published in the 2011-12 Budget.

The 2012-13 Budget, published in May 2012, indicated that the budget would return to surplus in 2012-13, despite the weaker than expected recovery in tax receipts.

The Treasury assisted the Government in implementing its fiscal strategy by managing budget processes and advising the Deputy Prime Minister and Treasurer on the overall budget strategy and priorities. In particular, the Treasury provided advice to the Government on the medium-term fiscal strategy in the context of returning the budget to surplus once economic growth is around trend. In this respect, good budget processes help governments make decisions based on accurate information, and allow proposals to be prioritised according to overall budget objectives.

Contribution to public debate and awareness

The Government's Budget publications are available free at www.budget.gov.au. Since the 2012-13 Budget, there have been over 311,210 unique visitors to the budget website and over 2.7 million pages have been viewed. Widespread access to these documents helps the public keep informed of budget decisions and the fiscal outlook.

The Treasury and the Department of Finance and Deregulation jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries for non-specialist readers. This year, these were the *Budget Overview*, *Budget at a Glance*, *Delivering a Stronger, Fairer Future* and the *Tax Reform Road Map.*

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

- the principal budget aggregates and the Government's fiscal strategy and objectives;
- economic assumptions underpinning the budget estimates;

- tax revenue estimates;
- tax expenditure estimates; and
- the conduct of Commonwealth-State financial relations.

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

- disciplined budget management, with fiscal policy based on principles of sound fiscal management;
- transparency, with regular reports stating fiscal objectives and expected outcomes;
- accountability, with information allowing an informed assessment of the conduct of fiscal policy; and
- reporting against external accounting standards.

Under the Charter, budget reporting follows an annual cycle comprising the budget in May, a mid-year update before 31 January and a final budget outcome the following September.

The *Final Budget Outcome 2010-11* was published in September 2011. In 2010-11, the Australian Government general government sector recorded an underlying cash deficit of $47.7 billion. This outcome was around $1.6 billion better than estimated at the 2011-12 Budget, reflecting lower than expected cash receipts and lower than expected cash payments.

Information on the Government's financial relations with State and Local governments is detailed in the 2012-13 Budget, Budget Paper No. 3*, Australia's Federal Relations.* This paper, produced by the Treasury, is the main public source of information on Australian Government payments to the States. It also informs the States of their expected payments in the upcoming financial year.

In addition, this Budget Paper also includes information on fiscal developments in the States, as well as advice on policies relating to Commonwealth-State financial relations.

Relevant information is also included in MYEFO and the Final Budget Outcome documents.

Information on the federal financial framework is available on the Standing Council on Federal Financial Relations (Standing Council) website at www.federalfinancialrelations.gov.au.

Debt management policy

In consultation with the AOFM, Treasury provided advice to the Deputy Prime Minister and Treasurer on debt issuance and debt policy issues. This included advice on issues affecting the Government's debt management operations including the performance, governance and functioning of the Commonwealth debt market.

Budget 2012-13 reported that Treasury Bond issuance in 2012-13 is expected to be around $35 billion. The face value of securities offered at each tender will be between $500 million and $1 billion. In addition, Treasury Notes will be offered at regular tenders to support the within-year financing task. It is planned that at least $10 billion of Treasury Notes will be kept on issue at all times so as to maintain a liquid market. In 2012-13, Treasury Indexed Bond issuance is expected to be around $2 billion.

Specific details of the Government's forward debt issuance program in 2012-13 are on the AOFM website at www.aofm.gov.au.

Future Fund and Nation-building Funds

During 2011-12, the Treasury continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund and the three Nation-building Funds. Further information regarding the performance of the Future Fund is at www.futurefund.gov.au.

Australia's Federal Financial Relations

The Commonwealth is working in partnership with the States in a number of key reform areas benefitting all Australians. Significant progress has been made in implementing the reform agenda through the *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement). The framework has proved to be flexible and able to facilitate reform activity, including health reform.

Following the 2010 Heads of Treasuries review of agreements under the framework (HoTs Review), COAG initiated reviews of the performance reporting frameworks for the six National Agreements. This work was progressed during 2011-12 in conjunction with wider work by Senior Officials to implement the recommendations of the HoTs Review and address challenges identified by the COAG Reform Council in their annual performance reports under National Agreements. The final reports and recommendations of the reviews of the National Agreements were considered by COAG on 25 July 2012. The reports can be found online, at www.coag.gov.au.

General revenue assistance

Under the Intergovernmental Agreement, the Commonwealth makes payments to the States equivalent to the revenue received from the GST. GST revenue is paid on a monthly basis, distributed in accordance with relativities determined by the Deputy Prime Minister and Treasurer, following recommendations by the Commonwealth Grants Commission and discussion at the Standing Council meeting.

The ATO and Australian Customs and Border Protection Service collect GST revenue on behalf of the States, and the States compensate them for the costs incurred in administering and collecting GST revenue. The Treasury managed the payments made to the States and ensured they were administered accurately.

General revenue assistance is provided to the States, including GST payments, without conditions, to spend according to their own budget priorities.

Details on general revenue assistance are provided under program 1.4.

Payments for specific purposes (National SPPs and National Partnerships)

The five National SPPs are in healthcare, schools, skills and workforce development, disability services and affordable housing. These are associated with six national agreements, including the National Indigenous Reform Agreement, which contain mutually-agreed objectives, outcomes and performance indicators, and which clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services in these sectors. During 2011-12, the National Agreement for Skills and Workforce Development was reviewed and updated in consultation with States and Territories.

National Health Reform funding will be provided from 1 July 2012, replacing the National Healthcare Specific Purpose Payment (National Healthcare SPP). This funding will comprise two elements: National Health Reform base funding to be provided from 1 July based on the National Healthcare SPP; and efficient growth funding to be provided from 2014-15. National Health Reform funding will be paid into a National Health Funding Pool to support public hospital services.

In addition, National Partnerships support the delivery of specific projects, facilitate reforms and/or reward those jurisdictions that deliver on nationally significant reforms.

Details on National SPPs and National Partnerships are provided under programs 1.5 to 1.10.

Standing Council for Federal Financial Relations

The Standing Council, comprising the Commonwealth Treasurer and all State and Territory Treasurers, considers on-going reform of federal financial relations and oversees the Intergovernmental Agreement. The Treasury advised the Deputy Prime Minister and Treasurer in relation to these matters and provided secretariat support to the Standing Council. The website for the Standing Council is www.federalfinancialrelations.gov.au.

At Standing Council meetings held in 2011-12, Treasurers focused on key issues including monitoring the national and state and territory economies; monitoring progress under the COAG reform agenda; and considering the financing aspects of the health reforms.

GST Distribution Review

On 30 March 2011, the Commonwealth Government announced a review of the distribution of the GST (the Review).

The Review will consider whether the distribution of the GST and the current form of horizontal fiscal equalisation will ensure that Australia is well placed to respond to long-term trends and structural change in the economy while maintaining confidence in the financial relations within the Australian Federation. Supplementary Terms of Reference were issued on

17 November 2011, asking the Review panel to examine the interaction between the GST distribution and State tax reform, and the relationship between State mineral royalties and the Commonwealth's resource tax reforms.

The Review is being conducted by the Hon John Brumby, Mr Bruce Carter, and the Hon Nick Greiner AC. The Treasury has established a secretariat to support the Review. The secretariat includes officials seconded from the Commonwealth Grants Commission and State Treasuries.

In 2011-12, the panel produced two interim reports, focusing on the initial Terms of Reference (March 2012) and the supplementary Terms of Reference (June 2012). Following further public submissions and consultations with the States and Territories, the panel will present its final report to the Treasurer by October 2012.

Further information on the Review is available online, at www.gstdistributionreview.gov.au.

Australian Loan Council

The Australian Loan Council is a Commonwealth-State ministerial council that meets annually to consider jurisdictions' nominated borrowings for the forthcoming year with regard to each jurisdiction's fiscal position and the macroeconomic implications of the aggregate figure.

In 2009-10, the Loan Council expanded to include reporting on the macroeconomic implications of infrastructure investments, and to take on an oversight function of the Commonwealth Guarantee of State and Territory borrowing. The guarantee closed to the new issuance of bonds on 31 December 2010. The Loan Council found that the guarantee had been used appropriately, and in 2011-12, agreed to a cessation of reporting on the guarantee.

Heads of Treasuries

At Heads of Treasuries meetings, the treasuries of the Australian and State governments share information on common issues. The Secretary to the Treasury and his state counterparts met twice in 2011-12 to discuss the general operation of the federal financial relations framework, current economic conditions and the fiscal outlook, and tax and financial issues.

GST Administration Sub-committee

The Treasury chairs this sub-committee, which comprises officials from the Treasury, the ATO and State Treasuries. The sub-committee met once in 2011-12. The sub-committee assisted the Standing Council in the development of draft regulations specifying the GST treatment of certain Australian government fees and charges, as well as providing advice on other GST policy and administrative issues, and discussing GST revenue and payments.

Industry, Regional, Climate Change and Environment, and Defence and National Security

Industry and regional policy

The Treasury advised on industry assistance, science and innovation, arts, sports and regional policy issues. This included advice on the work of the Prime Minister's Manufacturing Taskforce, structural and regional adjustment, Australian space policy and the Australian venture capital market.

Climate change and environment policy

The Treasury advised the Deputy Prime Minister and Treasurer on climate change issues, including implementation of carbon pricing and the Clean Energy Future package, low emissions technologies and energy efficiency, renewable energy and alternative fuels, and international engagement on climate change issues.

The Treasury advised the Deputy Prime Minister and Treasurer on the establishment and design of the Clean Energy Finance Corporation (CEFC) and provided secretariat support to the CEFC expert review panel. Treasury also prepared the legislation and associated explanatory memorandum for the establishment of the CEFC.

The Treasury also advised the Deputy Prime Minister and Treasurer and participated in associated inter-departmental committees on environmental and agricultural issues including biodiversity, marine reserves, biosecurity, drought policy, water policy and the Murray-Darling Basin Plan.

The Treasury's advice covered the Government's response to the Tasmanian Forests Statement of Principles, the review of the *Environment Protection and Biodiversity Conservation Act 1999*, the development of the National Food Plan green paper and Australia's Antarctic Territory. Additional advice was provided on specific agricultural commodity issues including live animal exports, fisheries and other primary industries.

During 2011-12, the Treasury also contributed to inter-departmental committees dealing with water policy, progressing the Murray-Darling Basin Plan, marine protected areas, forestry, biosecurity and drought.

Defence and national security policy

The Treasury advised on a range of defence and national security issues, including the Coordinated National Security Budget process and advice to support the Secretary in his role as a member of the Defence Strategic Reform Advisory Board.

The Treasury has continued to participate in the Secretaries' Committee on National Security, which examines and advises on proposals considered by the National Security Committee of Cabinet. It also participated in inter-departmental processes concerning Defence Capability Plan projects, cyber policy, border protection policy and various aspects of domestic security arrangements.

Social, Disability, Education, Indigenous, Labour Market, Immigration and Health policy

Social policy

During 2011-12, the Treasury:

- assisted other agencies to implement a package of assistance for households to accompany the introduction of a carbon price;
- worked with other agencies to progress the Government's problem gambling reforms;
- worked with other agencies to progress the Social Inclusion agenda;
- worked with the States and Territories and other agencies to progress the first stage of the National Disability Insurance Scheme and the National Injury Insurance Scheme, including providing secretariat support to the National Injury Insurance Scheme Advisory Group;
- worked with other agencies to develop the Stronger Futures in the Northern Territory package to support Indigenous people living in regional and remote areas of the Northern Territory;
- worked with other agencies, particularly the Department of Health and Ageing, to develop the Government's response to the final report of the Advisory Panel on the Economic Potential of Senior Australians;
- provided policy advice on the Commonwealth response to natural disasters and on natural disaster recovery policy more broadly; and
- provided policy advice on the final design of the Review of Military Compensation Arrangements and the activities to commemorate the 100th anniversary of the First World War and the Anzac Centenary.

Disability policy

In the 2012-13 Budget, the Government announced funding for the first stage of a National Disability Insurance Scheme (NDIS) to provide care and support for all Australians with a significant and permanent disability. Treasury is working closely with the NDIS Joint Taskforce to progress consideration of costing, funding and design issues.

Treasury is also tasked with progressing the National Injury Insurance Scheme (NIIS), along with the States and Territories. The NIIS will be a federated model of separate, state-based no fault schemes to provide lifetime care and support to people who incur a catastrophic injury as a result of an accident. The initial focus is on developing minimum standards across the States and Territories for motor vehicle accidents. Treasury is also providing secretariat support to the Minister for Financial Services and Superannuation's NIIS Advisory Group, which assists the Government in considering the Productivity Commission's NIIS recommendations.

Education policy

The Treasury continued to provide advice on education and skills policy during 2011-12, working collaboratively across government to consider the proposals of the Gonski review of school funding and ensure effective implementation of the Building Australia's Future Workforce package of measures announced in the 2011-12 Budget, including the new National Partnership Agreement on Skills Reform.

Indigenous policy

A key area of work in Indigenous policy in 2011-12 was the Treasury's input into the development of and advice on the Stronger Futures in the Northern Territory package**.** The Treasury also had a continued role in advising on the Government's commitment to closing the gap in Indigenous disadvantage, including through the COAG reform agenda and the Single Indigenous Budget Statement**.**

Labour market programs and participation

The Treasury advised on a range of employment and participation issues, with a particular focus on remote jobseekers, redundant workers and the long-term unemployed. In particular, the Treasury provided input into the development of the new $1.5 billion Remote Jobs and Communities Program, which will provide a more integrated and flexible approach to employment and participation services for people living in remote areas of Australia, and worked with the Department of Education, Employment and Workplace Relations (DEEWR) and the Department of Industry, Innovation, Science, Research and Tertiary Education on a new range of initiatives to ensure that mature age workers maintain their attachment to the workforce.

Workplace relations

The Treasury worked closely with DEEWR to develop a whole-of-government approach to the 2012 Minimum Wage Review and prepare government submissions to the Minimum Wage Panel's minimum wage decision.

Immigration

The Treasury continued to provide advice that links Australia's immigration policy to labour market needs and prevailing economic conditions.

In particular, advice was provided on several reforms to immigration policy and associated settings, including the introduction of a new Significant Investor Visa and new visa fee system, reforms to the Employer Sponsored and Student Visa programs, and changes to the composition of the 2011-12 Migration Program.

Health policy

A National Health Reform Agreement was finalised with all States and Territories in August 2011. The Treasury assisted the Department of Health and Ageing to implement the changes, including changes to the financial framework and modelling of the fiscal implications.

The Treasury worked closely with other agencies to help develop the *Living Longer. Living Better* aged care reform package, which was announced on 20 April 2012.

Household Assistance Package

Treasury worked as a joint lead agency with the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and the Department of Climate Change and Energy Efficiency (DCCEE) to design the Clean Energy Future Household Assistance Package. The Treasury has since maintained a role in supporting other agencies to implement the package. The Treasury will also have a role in reviewing the adequacy of the package over the fixed price period.

Centre for Market Design

In 2011-12, the Treasury, in collaboration with the Victorian Department of Treasury and Finance and the University of Melbourne, established a Centre for Market Design (the Centre). The Centre provides a mechanism for participants to build capacity and capability in the area of market design and experimental economics and apply economic design techniques to public policy, procurement and resource allocation problems. The concept is being tested as an initial two-year pilot.

Further information on the Centre is available at www.cmd.org.au.

REVENUE GROUP

Overview

Revenue Group aims to contribute to effective taxation and retirement income arrangements that are crucial to the Government's objectives for the economy and the wellbeing of Australians. Contributing to better tax policy and better tax law are key elements of the Treasury's role as a central policy agency.

Revenue Group has primary responsibility for providing high-quality advice to Treasury portfolio ministers on tax and retirement income policies and legislation. The Treasury designs policy options and legislative proposals to make the Australian tax system more efficient, fair and transparent, and minimise compliance and administration costs. Advice is formulated through an integrated process, which includes consultation with business and community bodies, and close cooperation with the ATO and relevant Commonwealth departments.

During 2011-12, Revenue Group provided policy advice to assist the Government reform the tax and retirement income systems. It developed legislation giving effect to measures announced in the 2011-12 and 2012-13 Budgets and 2011-12 Mid-Year Economic and Fiscal Outlook to ensure the Budget's sustainability. Revenue Group also developed revenue projections as an input to the medium-term analysis undertaken in the 2012-13 Budget.

The Treasury represents Australia as the Chair of the Global Forum on Transparency and Exchange of Information on Tax Matters. It also provides secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report at www.taxboard.gov.au.

Group deliverables

Revenue Group's key deliverables are to provide advice on:

- implementation of the Government's taxation and retirement income reform agenda;
- the impacts of tax system and retirement income proposals, measures and expenditures, including on government finances, economic growth, and their distributional impact and overall efficiency and effectiveness;
- a modernised tax treaty network and revised international tax rules, which enhance Australia's international attractiveness for investment but address risks from harmful tax jurisdictions while furthering Australia's interests in the Pacific and Asia; and
- Australia's participation in international forums, including the OECD, G20 and the Global Forum in relation to international standards of tax information and transparency.

Group outcomes

Revenue Group's key outcomes were:

- advising the Government on further tax reform initiatives to follow on from the Stronger, Fairer, Simpler package of May 2010, including the Tax Forum that was held on 4-5 October 2011;
- regularly revising tax revenue estimates and analysis and incorporating these into the overall fiscal outlook and strategy in the MYEFO and the 2012-13 Budget;
- providing quantitative advice underpinning taxation proposals included in the 2011-12 MYEFO and 2012-13 Budget, including:
  - changes to the fringe benefits tax on living-away-from-home allowances and benefits,
  - consolidation of the dependency offsets,
  - phasing out of the mature age worker tax offset,
  - changes to the net medical expenses tax offset,
  - better targeting of the employment termination payment tax offset,
  - superannuation reforms,
  - changes to company taxation including introducing a system of loss carry-back,
  - changes to the duty-free allowances for tobacco, and
  - increasing the withholding tax on managed investment trusts;

- providing demographic and labour force projections for the forward estimates and the medium-term estimates;
- providing quantitative advice, including analysis of the distributional considerations and revenue impacts of the Government's Budget and MYEFO measures;
- coordinating the 2011 Tax Expenditures Statement publication and providing quantitative advice on estimates of tax expenditures;
- advising on and developing legislation for business tax reforms including:
  - allowing companies to carry-back losses,
  - improving the efficiency of the research and development tax concessions,
  - revitalising the Australian shipping industry,
  - reforming taxation relief for small business, and
  - consulting on a revised policy framework of taxation of trust income;
- advising and developing legislation on measures to ensure the integrity of the business tax system, including extending the director penalty regime to superannuation guarantee amounts, and establishing a contractor reporting regime for the building and construction industry;
- providing advice and developing legislation on a number of improvements to the capital gains tax and taxation of financial arrangements regimes;
- providing secretariat support to the Business Tax Working Group;
- advising on and implementing legislation for personal tax policy reform, including:
  - increasing the tax free threshold as part of the Clean Energy Future package,
  - phasing out the dependent spouse tax offset,
  - consolidating the other dependency offsets into a single offset,
  - phasing out the mature age worker tax offset,
  - means testing the net medical expenses tax offset,
  - further exemptions from the temporary flood and cyclone reconstruction levy,
  - better targeting the employment termination payment tax offset, and
  - abolishing the education tax refund and replacing it with the Schoolkids bonus;
- advising on and implementing legislation for superannuation and retirement income policies, including:

- the Stronger Super reforms to improve the operation and integrity of the self-managed super funds (SMSF) sector,
- the SuperStream proposals to enhance the efficiency of the superannuation system,
- allowing fund members to electronically request the consolidation of their superannuation accounts through the Australian Taxation Office,
- reducing the tax concessions received by very high income earners on their superannuation contributions, and
- better ways to target and deliver certain superannuation concessions;

- providing secretariat support to the Superannuation Roundtable;
- advising on, and implementing legislation for, philanthropy tax policy, including:
  - progressing the Government's not-for-profit reform agenda,
  - establishing an Australian Charities and Not-for-profits Commission,
  - better targeting of not-for-profit tax concessions,
  - introduction of a statutory definition of charity,
  - continuing negotiations with the states and territories on national not-for-profit reform,
  - restating the 'in Australia' special conditions applying to tax concession entities,
  - improving the integrity of public ancillary funds, and
  - specifically listing organisations in the tax law as deductible gift recipients;
- advising on and implementing legislation for fringe benefits tax and non-cash benefits reform;
- advising on and implementing legislation establishing the Minerals Resource Rent Tax (MRRT) and extending the Petroleum Resource Rent Tax (PRRT), as well as advising the Government on a range of other resource taxation policy issues;
- advising on and implementing legislation on a range of indirect tax measures, including imposing an effective carbon price on business use of transport fuels and aviation fuel use, and bringing gaseous fuels under the carbon pricing mechanism;
- providing support to the Low Value Parcel Processing Taskforce, including the provision of a member of staff on secondment to the taskforce's secretariat;
- monitoring the operation and administration of the GST through the activities of the GST Policy and Administration Sub-group, which includes representation from each State and Territory Treasury;

- contributing to international forums, including the OECD Working Party No. 9 on Consumption Taxes, and to international agreements, including the World Health Organisation's Framework Convention on Tobacco Control;
- advising on, developing and implementing legislation for Australia's international tax arrangements. This reflects efforts to maintain the integrity of the tax base while providing a competitive and modern international tax system, including recommendations from the Board of Taxation's Review of the Foreign Source Income Anti-Tax-Deferral Regimes, and the Johnson Report;
- progressing tax treaty negotiations with key investment partners and concluding tax information exchange agreements with several other jurisdictions;
- contributing to global efforts to address tax transparency, including through representing Australia as the Chair of the Global Forum on Transparency and Exchange of Information on Tax Matters;
- advising on reports on tax administration matters by external scrutineers such as the Inspector-General of Taxation, Board of Taxation and Joint Committee of Public Accounts and Audit;
- advising other agencies on legislation in relation to confidentiality of taxpayer information;
- providing secretariat support to the Board of Taxation, including to:
  - its reviews of the tax arrangements applying to collective investment vehicles,
  - the review of an investment manager regime as it relates to foreign managed funds,
  - the review of tax arrangements applying to permanent establishments, and
  - post-implementation reviews into certain aspects of the consolidation regime, the Tax Design Review Panel recommendations and into Division 7A of Part III of the Income Tax Assessment Act 1936;
- providing secretariat support to the Tax Issues Entry System Working Group.

Analysis of performance

Further tax reform

The Treasury has been working to foster a more system-wide approach to policy development that recognises the close links between different parts of the tax system. A series of policy workshops, seminars and cross-group collaborations have been used to deepen the understanding of these issues.

The Tax Forum

The Treasury coordinated the Tax Forum that was held at Parliament House on 4 and 5 October 2011. The forum brought together around 180 representatives from business, community, academia, unions and governments to discuss ways to progress tax reform.

Tax revenue estimates and analysis

The Treasury, in collaboration with the ATO, provided the Government with timely monitoring, analysis and estimation of tax revenues as revenues continued to recover from the effects of the global financial crisis. Revisions to expected tax revenue in 2011-12 and over the forward estimates were made at each of the economic and fiscal outlook releases through 2011-12 (MYEFO and the 2012-13 Budget). The Treasury provided revenue estimates into the medium term as an input into the medium-term analysis undertaken in the 2012-13 Budget.

A review of the quality of Treasury's forecasts of the macroeconomy and revenue was announced by the Secretary on 31 May 2012. This review is being undertaken by a team from within Treasury, overseen by an external reference group, with a summary of the review's findings to be published.

Business tax reform

Business Tax Working Group

The Treasury provided secretariat support to the Business Tax Working Group (BTWG) from its establishment in October 2011. The BTWG provided its interim report on the tax treatment of losses in December 2011 and a final report on the tax treatment of losses in March 2012 to the Treasurer. The Working Group also began its consideration of longer-term business tax reform options.

Improving access to corporate losses

The Treasury provided policy advice to allow companies to carry-back losses following the recommendations of the BTWG. From 2012-13, companies will be able to carry-back tax losses of up to $1 million to obtain a refund of tax previously paid. From 2013-14 companies will be able to carry-back losses for the previous two years. This reform provides a tax benefit of up to $300,000 per year, and will assist companies to finance investments, training and restructuring to improve competitiveness.

Improving the efficiency of Research and Development (R&D)

The Treasury provided policy advice and developed legislation to replace the longstanding R&D Tax Concession with the R&D Tax Incentive. The new R&D Tax Incentive better targets research and development activity with a higher base rate of support. Unlike the Tax Concession, there is no cap on the amount that can be claimed. The R&D Tax Incentive commenced on 1 July 2011, allowing eligible companies with an aggregated annual turnover of less than $20 million to receive a 45 per cent refundable tax offset for expenditure on eligible R&D activities. All other eligible companies are entitled to a 40 per cent non-refundable tax offset for such expenditure.

Shipping reforms

The Treasury provided policy advice and developed legislation to implement the Government's 2010 election commitment to revitalise the Australian shipping industry. The taxation measures, which were developed in close consultation with the Department of Infrastructure and Transport and industry stakeholders, comprise an income tax exemption for ship operators, provision for accelerated depreciation of certain vessels, roll-over relief from income tax on the sale of a vessel, a refundable tax offset for employers, and an exemption from royalty withholding tax for payments made for the lease of shipping vessels. These measures came into effect on 1 July 2012, and form part of the Government's Stronger Shipping for a Stronger Economy reform package.

Small business tax package

The Treasury continued to provide policy advice, develop legislation and undertake public consultation on draft legislation, for reforms for small business that were included in the *Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Act 2011*. These reforms operate from the 2012-13 income year and include increasing the small business instant asset write-off threshold to $6,500 and simplifying the depreciation rules for small business. In addition, Treasury developed legislation on the 2010-11 Budget announcements, which provided small businesses with an accelerated initial deduction for motor vehicles.

Reform of taxation of trust income

The Treasury provided policy advice and consulted with the community on reforms to modernise the taxation of trust income. These reforms are scheduled to take effect on 1 July 2014 and will include a new tax system for managed investment trusts (MITs), where the objective is to increase certainty, reduce complexity and lower compliance costs for MITs and their investors.

Ensuring the integrity of the business tax system

Director penalty regime

The Treasury provided policy advice and developed legislation to extend the current director penalty regime to superannuation guarantee amounts, and to strengthen its application to Pay As You Go Withholding obligations. This measure was enacted as part of the *Tax Laws Amendment (2012 Measures No. 2) Act 2012* and the *Pay As You Go Withholding Non-compliance Tax Act 2012*. The measure gave effect to the Government's election commitment to counter phoenix activity and to protect workers' entitlements.

Reporting taxable payments in the building and construction industry

The Treasury continued to provide policy advice, consult with the community and develop regulations on a regime that requires businesses in the building and construction industry to report annually to the Australian Taxation Office the details of payments they make to contractors providing building and construction services. The regime commenced on 1 July 2012.

Improving the operation of capital gains tax

The Treasury provided advice, consulted on and developed legislation on a number of measures to improve the operation of the capital gains tax (CGT) regime, including:

- removing income tax impediments to superannuation funds seeking to merge in response to the Stronger Super reforms;
- ensuring that default members of superannuation funds are not adversely affected if their superannuation benefits and relevant assets are transferred under the MySuper reforms;
- extending the CGT main residence exemption to special disability trusts (SDTs) and providing a CGT exemption for assets transferred into an SDT for no consideration; and
- removing CGT impediments to taxpayers participating in an Australian government agency program that provides replacement assets to taxpayers affected by a natural disaster.

Improvements to the taxation of financial arrangements

The Treasury provided advice, consulted and developed legislation to refine the taxation of financial arrangements provisions and to provide certainty and clarity on the operation of the law.

Treasury also provided advice on:

- the treatment of certain Tier 2 capital instruments under the Basel III capital reforms to ensure that these instruments will not be precluded from being treated as debt for income tax purposes;
- the consistent treatment of bad debts between related parties irrespective of whether they are members of a tax consolidated group; and
- the definition of limited recourse debt, to include arrangements where the creditor’s right to recover the debt is effectively limited to the financed asset or security provided.

Personal tax and fringe benefits tax policy reform

Clean energy future tax reforms

The Treasury advised on the personal taxation elements of a package to assist Australian households with the move to a Clean Energy Future and introduced legislation to implement this package. This package involved tax cuts delivered through simplification reforms to the personal income tax system, which include more than tripling the statutory tax free threshold and reducing the system’s reliance on complicated tax offsets to deliver tax relief. These reforms commenced on 1 July 2012.

Phasing out the dependent spouse tax offset

The Treasury advised on and implemented legislation on the 2011-12 Budget and 2011-12 MYEFO measures to phase out the dependent spouse tax offset. The offset is no longer available for spouses born after 1 July 1952 unless the spouse is invalid or has caring responsibilities. These changes were implemented by the *Tax Laws Amendment (2011 Measures No. 5) Act 2011* and *Tax Laws Amendment (2012 Measures No. 3) Act 2012*.

Rebalancing support for private health insurance

The Treasury continued to advise the Government on its measure, announced in the 2009-10 Budget and implemented in 2011-12, to means test the private health insurance rebate. These changes were introduced in *Fairer Private Health Insurance Incentives Act 2012*.

Phasing out the mature age worker tax offset

The Treasury advised on the 2012-13 Budget measure to phase out the mature age worker tax offset. From 1 July 2012, the mature age worker tax offset will only be available to taxpayers born before 1 July 1957. Legislation is being developed to give effect to this measure.

Consolidating the dependency tax offsets into one

The Treasury advised on the 2012-13 Budget measure to consolidate eight dependency offsets into one, which is only available to taxpayers who maintain a dependant who is genuinely unable to work due to carer obligation or disability. The offsets to be consolidated are the invalid spouse, carer spouse, housekeeper, housekeeper (with child), child-housekeeper, child-housekeeper (with child), invalid relative and parent/parent-in-law tax offsets. Legislation is being developed to give effect to this measure.

Better targeting the employment termination payment tax offset

The Treasury advised on the 2012-13 Budget measure to better target the employment termination payment tax offset. From 1 July 2012, only that part of an affected employment termination payment (ETP) that takes a person's total annual taxable income (including the ETP) to no more than $180,000 will receive the ETP tax offset. This reform was implemented by the *Tax Laws Amendment (2012 Measures No. 3) Act 2012*.

Means testing the net medical expenses tax offset

The Treasury advised on the 2012-13 Budget measure to means test access to the net medical expenses tax offset. For people with adjusted taxable income above the Medicare levy surcharge thresholds ($84,000 for singles and $168,000 for couples or families in 2012-13), the threshold above which a taxpayer may claim the offset will be increased to $5,000 (indexed annually thereafter) and the rate of reimbursement will be reduced to 10 per cent for eligible out-of-pocket expenses incurred. People with income below the surcharge thresholds will be unaffected. Legislation implementing this measure is being developed.

Reform of the income tax treatment of non-cash benefits and the extension of the fringe benefits tax exemption for fly-in-fly-out arrangements to Australians working overseas

The Treasury provided advice and developed legislation to amend the *Fringe Benefits Tax Assessment Act 1986* to provide an exemption from fringe benefits tax for transport, from an employee's usual place of residence to their usual place of employment, where the employee is an Australian resident employed in a remote area overseas, under what is commonly known as a fly-in fly-out arrangement, for fringe benefits provided after 1 July 2009.

This measure was announced in the Assistant Treasurer and Minister for Financial Services and Superannuation's Media Release No. 011 of 18 November 2010.

Not-for-profit reforms

The Treasury advised the Government on implementing its not-for-profit reform agenda announced in the 2011-12 Budget. The reforms include:

- establishment of the Australian Charities and Not-for-profits Commission from 1 October 2012 — the Commission will initially be responsible for determining the legal status of groups seeking charitable and public benevolent institution status. The Commission will also implement a 'report-once use-often' reporting framework for charities, provide education and support for the sector on technical matters, and establish a public information portal;
- introducing a statutory definition of 'charity' — the definition will apply across all Commonwealth agencies from 1 July 2013 and is based on the 2001 Report of the Inquiry into the Definition of Charities and Related Organisations, taking account of the findings of recent judicial decisions;
- better targeting the not-for-profit tax concession — to reform the use of tax concessions by unrelated businesses run by not-for-profit entities;
- continuing negotiations with the States and Territories on national regulation and a new national regulator for the sector, as the greatest reduction in red tape can only be achieved with national coordination; and
- restating and standardising the special conditions for tax concession entities.

Superannuation and retirement income policy reform

2011-12 MYEFO measures

The Treasury provided advice for the Government's 2011-12 MYEFO measures, and developed legislation for and implemented some of the measures. These measures included:

- abolishing the maximum superannuation guarantee age limit;
- a one-year pause in the indexation of the concessional contributions cap;
- clarifying the operation of certain trust deed clauses so that these clauses cannot be used to avoid excess contributions tax;
- changes to the superannuation co-contribution to reduce the matching rate, the maximum co-contribution amount and upper income threshold; and
- extension of the drawdown relief for account-based pensions provided in 2011-12 to 2012-13, through a 25 per cent reduction in the minimum payment amounts.

2012-13 Budget superannuation measures

The Treasury provided policy advice for the Government's 2012-13 Budget measures, and developed legislation for and implemented some of the measures. These measures included:

- developing a facility for the online registration of SMSF auditors and to cover the costs, increasing the SMSF levy from $180 to $200 for 2011-12 and then decreasing to $191 from 2012-13;
- ensuring the process of everyday superannuation transactions are easier, cheaper and faster through the SuperStream package of measures, including by implementing new data and e-commerce standards for superannuation transactions, allowing the use of tax file numbers as the primary locator of member accounts and facilitating account consolidation and electronic portability; and
- deferring the higher concessional contributions cap for individuals aged 50 and over with superannuation balances below $500,000.

Treasury consulted the superannuation industry and other relevant stakeholders on further design and implementation issues on the 2012-13 Budget measures to reduce the tax concession on superannuation contributions of very high income earners.

Stronger, Fairer, Simpler superannuation reforms

The Treasury consulted the Superannuation Roundtable on implementation issues for the Government's announcement to provide higher concessional contributions caps for those aged 50 or over with superannuation balances of less than $500,000.

The Treasury developed legislation to give effect to the superannuation reforms to increase the superannuation guarantee rate, abolish the maximum age limit on superannuation guarantee and introduce a new superannuation contribution for low income earners. This legislation was part of the Mineral Resource Rent Tax package and was enacted on 29 March 2012.

Trans-Tasman retirement savings portability

The Treasury continues to work with New Zealand officials to finalise legislation to allow Australians and New Zealanders to take their retirement savings with them when they move across the Tasman.

Once enacted, the scheme will permit transfers between certain Australian superannuation funds and New Zealand KiwiSaver schemes. Participation in the scheme will be voluntary for eligible funds, as well as for individuals wishing to transfer their retirement savings.

The approach will maintain the integrity of the Australian and New Zealand retirement savings systems.

Super System Review

The Treasury assisted the Government in undertaking consultations with stakeholders on the implementation of the Super System review reforms and provided advice to the Government on implementation details.

The Treasury developed legislation for reporting of superannuation contributions on payslips, quarterly notification by superannuation funds about whether contributions have been received and the facilitation of the consolidation of unnecessary superannuation accounts.

Other superannuation measures

The Treasury provided policy advice and developed legislation on other superannuation issues, including:

- streamlining the process for superannuation funds claiming deductions for the cost of total and permanent disability insurance;
- allowing the proceeds of crime to be recovered from superannuation; and
- refunding certain excess concessional contributions.

International tax arrangements

Review of transfer pricing laws

On 1 November 2011, the Government announced that it would introduce amendments to the income tax law to better align Australia's transfer pricing rules with international best practice in order to improve the integrity and efficiency of the tax system.

The first phase of these reforms involved clarification of the application of the treaty transfer pricing rules. The Treasury developed legislation to give effect to this reform with amendments to clarify the operation of the law included in the Tax Laws Amendment (Cross-border Transfer Pricing) Bill (No. 1) 2012, which was passed by the Parliament on 20 August 2012. In developing the rules, the Treasury consulted extensively both on a public basis, and with tax practitioners, peak body representatives and industry representatives.

Investment Manager Reforms

Following a review and report of the Australian Financial Centre Forum (*Australia as a Financial Centre; Building on Our Strengths 2009*), the Australian Government announced support for the development of an investment manager regime (IMR). The IMR is intended to provide clear and comprehensive statutory rules for taxing non-resident investment into Australian and foreign assets.

Treasury has consulted extensively with industry on the implementation of this measure and has developed legislation to clarify the tax treatment of income of foreign managed funds for previous income years, and the foreign conduit income of such funds.

Treasury will continue to consult with industry and provide further advice to government on the development of the final stage of the IMR.

Tax treaty negotiations

Australia has a tax treaty network of 44 bilateral tax treaties (42 in force). Tax treaties promote closer economic cooperation by eliminating barriers to trade and investment caused by overlapping tax jurisdictions. Tax treaties offer protection for Australian businesses investing offshore by reducing or eliminating double taxation of income flows between treaty partner countries. They also create a framework through which tax administrations can combat international fiscal evasion. During 2011-12, the Treasury continued to progress the Government's tax treaty negotiation program through negotiations and discussions with a number of countries. In particular, Treasury hosted a round of negotiations with Switzerland in November 2011. A protocol amending the Australia-India treaty was signed in December 2011.

The Treasury provided advice on various international agreements the Government is negotiating, including free trade agreements, film co-production agreements, and proposed agreements with potential tax privileges and immunities. The Treasury also contributed to international tax treaty policy development and capacity-building through its work with the OECD's Committee on Fiscal Affairs. The Treasury also analysed, and provided advice on, mitigating the impacts of the United States' Foreign Account Tax Compliance Act (FATCA) on the Australian economy.

Tax information exchange agreements and international transparency

Tax information exchange agreements

Australia continued to make significant progress in securing tax information exchange agreements with low tax jurisdictions, including signing tax information exchange agreements with Andorra, Bahrain, Costa Rica, Liberia and Macao. Tax information exchange agreements provide a legal basis for bilateral exchange of tax information, for both civil and criminal tax purposes, and are an important measure to combat offshore tax evasion.

The Treasury has led Australia's contribution to international efforts to address tax transparency and the use of secrecy for tax evasion purposes, and is involved in G20 and OECD efforts to improve global exchange of information for tax purposes. In August 2009, the Global Forum on Transparency and Exchange of Information was reinvigorated with a renewed mandate to conduct peer reviews of its members' commitment to international standards on tax transparency commitments. A Treasury official, Mr Mike Rawstron, is Chair of the Global Forum, which has overseen substantial progress in the removal of secrecy and provisions preventing the exchange of information on tax matters between jurisdictions.

Other international tax agreements

Australia signed the Multilateral Convention on Mutual Administrative Assistance in November 2011. The convention has been signed by nearly 40 jurisdictions and provides for assistance between national revenue authorities in three areas: the exchange of taxpayer information, the recovery of outstanding tax debts and the service of documents. The convention will complement Australia's tax treaty and tax information exchange agreement networks and further enhance Australia's ability to protect its revenue base. Action to enable Australia to ratify the convention is now underway.

International representation

The Treasury represented Australia on the OECD's Committee on Fiscal Affairs and its associated working parties dealing with international tax matters, particularly on developing comprehensive tax treaty policy and the harmful tax practices initiative. In addition, the Treasury represented Australia at the annual meetings of the United Nations Committee of Experts on International Cooperation in Tax Matters and the Global Forum for Transparency and Exchange of Information for Tax purposes. The Treasury also provided an instructor to an OECD course on tax treaty issues. Treasury staff presented at an Asian Development Bank seminar in Indonesia, and represented Australia at the First Annual International Meeting on Transfer Pricing as part of the OECD's Global Forum on Tax Treaties and Transfer Pricing.

Indirect tax policy reform

Clean Energy Plan

The Treasury developed legislation imposing an effective carbon price on aviation fuels through excise and customs tariffs from 1 July 2012. The legislation also reduced the business fuel tax credit entitlement of non-exempted industries for their use of liquid and gaseous transport fuels, imposing an effective carbon price on business through the fuel tax system from 1 July 2012. The *Clean Energy (Fuel Tax Legislation Amendment) Act 2011*, *Clean Energy (Excise Tariff Legislation Amendment) Act 2011* and *Clean Energy (Customs Tariff Amendment) Act 2011* received Royal Assent on 4 December 2011.

Applying the carbon price to gaseous fuels

The Treasury provided policy advice and developed legislation to bring gaseous fuels under the carbon pricing mechanism. The *Clean Energy Legislation Amendment Act 2012*, *Clean Energy (Customs Tariff Amendment) Act 2012* and *Clean Energy (Excise Tariff Legislation Amendment) Act 2012* received Royal Assent on 28 June 2012.

The Treasury also developed regulations to impose an effective carbon price on non-transport use of certain gaseous fuels for the period 1 July 2012 to 30 June 2013, before the fuels are brought directly into the carbon pricing mechanism.

Australia's response to the illicit tobacco protocol

The Treasury contributed to Australia's position on protocols and guidelines attached to the World Health Organisation's Framework Convention on Tobacco Control.

Review of the Legal Framework for the Administration of the Goods and Services Tax

The *Indirect Tax Laws Amendment (Assessment) Act 2012* implemented a number of recommendations of the Board of Taxation's *Review of the Legal Framework for the Administration of the Goods and Services Tax*.

Review of the GST financial supplies provisions

Legislative amendments were made, with effect from 1 July 2012, implementing the recommendations of the Treasury review of the GST Financial Supplies provisions.

Productivity Commission Inquiry into the Retail Industry

Revenue Group provided advice to the Government on the Productivity Commission's recommendations relating to the appropriateness of current indirect tax arrangements in its report on the *Economic Structure and Performance of the Australian Retail Industry*.

GST treatment of government taxes, fees and charges

Regulations were made under Division 81 of the *A New Tax System (Goods and Services Tax) Act 1999*, with effect from 1 July 2012, exempting certain government taxes, fees and charges from GST in accordance with the principles contained in the *Intergovernmental Agreement on Federal Financial Relations*.

Responding to court cases

Amendments to the GST law were made in response to a number of court cases including: Commissioner of Taxation v Multiflex [2011] FCAFC 142, Commissioner of Taxation v Gloxinia Investments (Trustee) [2010] FCAFC 46, TT-Line Company Pty Ltd v Commissioner of Taxation [2009] FCAFC 178 and Commissioner of Taxation v Secretary to the Department of Transport (Victoria) [2010] FCAFC 84. The GST issues considered in these cases included refunds, new residential premises, appropriations and GST-free health supplies.

Other reforms

Minerals Resource Rent Tax (MRRT) and Petroleum Resource Rent Tax (PRRT) extension

The Treasury developed legislation to implement the revised resource taxation arrangements announced by the Government on 2 July 2010. These included establishing the MRRT, which will apply to profits from coal and iron ore, and extending the PRRT to apply to all petroleum projects across Australia, including the North West Shelf and those located onshore. The *Minerals Resource Rent Tax Act 2012,* the *Petroleum Resource Rent Tax Assessment Amendment Act 2012*, and related legislation received Royal Assent on 29 March 2012.

Tax agent services regulatory reform

Treasury, in consultation with relevant industry and government stakeholders, continued to work through the co-regulatory model and implementation issues associated with bringing financial advisers providing tax advice under the scope of the tax agent services regime. On

30 April 2012, the Assistant Treasurer announced a deferral until 30 June 2013 from application of the tax agent services regime for financial advisers providing tax advice.

Tax Expenditures Statement

The Treasury coordinated the 2011 Tax Expenditures Statement publication and provided quantitative advice in respect of the estimates of tax expenditures (that is, the value of concessional taxation treatment) associated with taxation policy.

Tax policy consultation

The Treasury implemented a program of high-level stakeholder consultation meetings to engage the taxpayer community in a wider conversation about strategic tax policy issues. Two consultation meetings were held in 2011-12 with representatives from the tax industry, and business and community groups.

The Treasury updated the Government's Forward Work Program on a monthly basis and made it available publicly. The document is published to inform taxpayers and their advisers about the Government's current and forthcoming consultation process on tax measures. It outlines discussion papers, and exposure drafts of legislation and regulation that are currently open for consultation as well as those currently in preparation.

In addition, the Treasury engaged with members of the Tax Design Advisory Panel, which comprises lawyers, accountants, academics and economists. This panel provides advice on:

- consideration of tax and superannuation issues; and
- the design and implementation of relevant changes to the tax system.

The operation of the panel has been extended until 30 June 2014.

Miscellaneous amendments and technical corrections

Measures making miscellaneous amendments and technical corrections to the taxation laws were included in the *Tax Laws Amendment (2011 Measures No. 9) Act 2012* and the *Tax Laws Amendment (2012 Measures No. 1) Act 2012*, which received Royal Assent on 21 March 2012 and 27 June 2012 respectively.

Issues raised through the Tax Issues Entry System are addressed in miscellaneous amendment packages. The Tax Issues Entry System website (www.ties.gov.au) is jointly operated by the ATO and the Treasury and allows tax professionals and the general public to raise issues on the care and maintenance of the tax system.

Secretariat support to the Tax Issues Entry System Working Group

The Treasury provided support to the Tax Issues Entry System Working Group which met four times during 2011-12.

Secretariat support to the Board of Taxation

The Treasury provided secretariat support to the Board of Taxation, including to its reviews of the tax arrangements applying to collective investment vehicles, the review of an investment manager regime as it relates to foreign managed funds, the review of tax arrangements applying to permanent establishments and post-implementation reviews into certain aspects of the consolidation regime, into the Tax Design Review Panel recommendations and into Division 7A of Part III of the *Income Tax Assessment Act 1936*.

Secretariat support to the Superannuation Roundtable

The Treasury provided secretariat support to the Superannuation Roundtable, which met twice during 2011-12.

Management of legislation program

Advice to the Government on tax policy and legislation was timely, influential and of high quality, enabling the Government to make informed decisions and to develop a range of business, indirect, international, resource and personal income tax measures.

A total of 45 tax bills containing 73 measures were introduced into Parliament in 2011-12.

MARKETS GROUP

Overview

Markets Group contributes to Australia's continuing economic development and the wellbeing of its people by fostering a well-functioning market economy, a secure financial system, and foreign investment consistent with Australia's national interest. Improving the operation of markets works to enhance consumer and investor confidence, and foster a secure financial system and sound corporate practices.

The efficient operation of Australia's product and services markets is supported by a combination of laws, institutions, policies and administrative practices. The Treasury provides advice to the Government on developing and implementing policies to maintain and improve markets, so that investors and consumers can have confidence and certainty in making decisions that are well-informed and free from market distortions and impediments. The Treasury also provides advice to remove impediments to competition in product and services markets, and safeguard the public interest in matters such as consumer protection.

The Treasury also supports the operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Council.

A key focus for the Treasury in 2011-12 was providing policy analysis and advice to improve Australia's productivity and international competitiveness, and deepen the supply potential of the economy in the face of continued global financial turbulence. These policies focused on promoting economic growth and supporting employment, ensuring the financial system remained robust and dynamic, and ensuring that regulatory frameworks promoted macroeconomic stability and market confidence.

The Treasury also continued to monitor and provide advice on the general prudential framework applying to the banking sector, insurers and superannuation funds. The Treasury coordinated Australia's participation in the IMF's Financial Sector Assessment Program (FSAP). The Treasury participated actively in international forums, such as the G20 and Financial Stability Board, to enhance the regional and global financial architecture. In addition, the Treasury provided advice on foreign investment and trade policy, and continued to participate in free trade agreement negotiations.

During 2011-12, the Treasury continued to pursue sound regulatory and structural reforms to foster well-functioning markets in key financial, infrastructure, energy, housing and labour markets. This included work to further the COAG reform agenda to reduce the regulatory burden on business, including for the ongoing maintenance of a national law for consumer protection; housing supply and affordability; and as the lead agency in the multi-agency Standard Business Reporting (SBR) initiative.

The SBR program, intended to reduce the business-to-government reporting burden, was delivered on time and within budget on 1 July 2010. During 2011-12 the program focused on management of take-up targets, and the ongoing operation, maintenance and governance of the SBR solution. Participating SBR agencies include the Australian Bureau of Statistics (ABS), the Australian Prudential Regulatory Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Australian Taxation Office (ATO), and all State and Territory government revenue offices.

Group deliverables

Markets Group's key deliverables are to provide advice on:

- measures to promote competition, macroeconomic stability and market confidence, including providing advice on the prudential frameworks applying to the banking, insurance and superannuation sectors;
- financial sector reform options, including fostering the efficient flow of funds into, and within, the Australian economy;
- how to best influence and implement G20 decisions to strengthen the financial regulatory system;
- international cooperation in financial system regulation, corporate governance, financial reporting, auditing and corporate insolvency;
- financial services reform addressing emerging issues in investor protection;
- reform of corporate regulation, including addressing issues in corporate governance, financial reporting, auditing, corporate insolvency and market integrity;

- further reforms to executive remuneration arrangements, including simplifying remuneration reports;
- initiatives to position Australia as a leading financial services centre in the Asia-Pacific region, arising from the Government's response to the Australian Financial Centre Forum's report, *Australia as a Financial Centre: Building on Our Strengths*;
- key planks in the COAG reform agenda designed to reduce the regulatory burden facing business including the ongoing maintenance of a national law for consumer protection, national consumer credit law, cross-jurisdictional reform of personal criminal liability for corporate fault and the multi-agency SBR initiative;
- assisting the implementation of the National Broadband Network, including on structural reforms to maximise competition in the national telecommunications market;
- implementation of the Government's Clean Energy Future policies impacting on the Energy sector;

- managing incoming foreign investment to ensure that the national interest is protected and encourage free flows of investment;
- representation of Australia's interests on investment, financial services, competition and consumer issues in negotiating free trade agreements and, in relation to investment and competition, in multilateral forums such as the OECD and APEC;
- issues relating to the availability and affordability of insurance and reinsurance;
- improving housing affordability within Australia; and
- actuarial matters through the Australian Government Actuary which provides actuarial services to the Government, the Treasury and other agencies.

Group outcomes

Markets Group's key outcomes for 2011-12 were:

- developing amendments to the *Banking Act 1959* to allow Australian banks, credit unions and building societies to issue covered bonds, which came into effect in October 2011;
- implementing the Government's new 'tick and flick' deposit account switching service. The new arrangements came into effect on 1 July 2012 and make it easier for consumers to move their deposit accounts between financial institutions;
- making the Financial Claims Scheme (FCS) a permanent feature of Australia's financial landscape with a new cap of $250,000 per person per Authorised Deposit-Taking Institution (ADI), which came into effect on 1 February 2012;
- implementing the 'Government Guaranteed Deposits' seal for ADIs to help consumers easily identify deposit products covered by the FCS;
- continuing to work on refining Australia's arrangements for crisis management and resolution of financial institutions, including in conjunction with New Zealand's financial regulators;

- implementing the Government's Stronger Super reforms to optimise retirement benefits, improve competition and governance, lower costs and fees and foster confidence in superannuation;
- advancing a Housing Supply and Affordability Reform agenda, involving the examination of a range of factors that influence housing supply and demand in Australia;
- leading key reforms of the COAG Business Regulation and Competition Working Group to progress reforms in some of the 27 areas where duplicate and/or inconsistent regulation across jurisdictions imposes an unnecessary burden on business;
- developing the *Competition and Consumer Legislation Amendment Act 2011*, which received the Royal Assent on 6 December 2011. The legislation introduced amendments to implement the Government's commitments to clarify the unconscionable conduct and mergers and acquisitions provisions of the *Competition and Consumer Act 2010* — taking effect on 1 January 2012 and 6 February 2012, respectively;
- developing the *Competition and Consumer Amendment Act (No. 1) 2011*, which received Royal Assent on 6 December 2011. The legislation introduced prohibitions on anti-competitive price signalling and information disclosures to the *Competition and Consumer Act 2010*, which apply to the banking sector — taking effect on 6 June 2012;
- supporting and monitoring the post-implementation phase of the Australian Consumer Law, as well as further consideration of ongoing minor amendments including the *Competition and Consumer Amendment Regulations 2011 (No. 2)*;
- developing legislation to amend the *National Consumer Credit Protection Act 2009* to give effect to the Government's credit card reforms announced in December 2010;
- monitoring the effectiveness of the reforms introduced in the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*, which commenced on 1 July 2011, and developing legislative amendments to further strengthen Australia's remuneration framework following the release of the Corporations and Markets Advisory Committee Report on Executive Remuneration in April 2011;
- developing legislative amendments designed to improve audit quality in Australia. The *Corporations Legislation Amendment (Audit Enhancement) Act 2012* commenced on 27 June 2012;
- implementing the *Corporations Amendment (Phoenixing and Other Measures) Act 2012*, which commenced on 1 July 2012. The legislation provides ASIC with an administrative power to wind up abandoned companies so that workers can access the General Employee Entitlements Redundancy Scheme;
- progressing reforms to remove unnecessary regulatory burdens on directors and corporate officers, and minimise inconsistency between Australian jurisdictions in the application of personal criminal liability for corporate fault. An exposure draft of the Personal Liability for Corporate Fault Reform Bill 2012 was released for public comment;
- progressing reforms to the framework for corporate and personal insolvency regulation to promote practitioner professionalism and competency and increased efficiency in insolvency administration. A proposals paper, *A Modernisation and Harmonisation of the*

Regulatory Framework Applying to Insolvency Practitioners in Australia was released for public comment on 14 December 2011;

- implementing the Government's decision to support financial market competition in Australia, by completing the transfer of market supervision from the ASX to ASIC and facilitating the launch of Chi-X, the first market operator to compete directly with the ASX, in October 2011;
- implementing G20 commitments in relation to over-the-counter (OTC) derivatives by developing a legislative framework to allow for the flexible implementation of obligations in coordination with other jurisdictions;
- progressing reforms to introduce retail trading in Commonwealth Government Securities. The Commonwealth Government Securities Legislation Amendment (Retail Trading) Bill 2012 was introduced in June 2012;
- implementing the Future of Financial Advice reforms to improve the quality of financial advice provided to Australians through the removal of conflicts of interest and ensuring financial advisers act in the best interests of clients;
- progressing the Government's initiative to position Australia as a leading financial services centre in the Asia-Pacific region, including work to develop an Asia Region Funds Passport;
- implementing the *Insurance Contracts Amendment Act 2012*, including establishing a standard definition of 'flood' and developing a fact sheet for home building and home and contents insurance policies;
- providing advice, in consultation with the Foreign Investment Review Board, on significant and high profile foreign investment cases of national interest and trade policy matters, and dealing with global investment, trade flows and trends, foreign government investment and trade policy responses and the implications for Australia;
- contributing to free trade agreement negotiations with Japan, China, Korea, Malaysia, India, Indonesia, the Gulf Cooperation Council and the Trans-Pacific Partnership Agreement (which involves Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam, with Canada and Mexico also joining, and consideration being given to Japan joining);
- achieving closer economic integration through initiatives that further progress the development of a single economic market between Australia and New Zealand. In August 2009, the Australian and New Zealand Prime Ministers agreed on principles for developing cross-border economic initiatives and a range of shared practical outcomes in business law;
- continuing to provide secretarial support to the Financial Reporting Council (FRC), and engaging with the FRC to develop broad strategic directions relating to the accounting and auditing standards setting processes for the public and private sectors in Australia;
- leading the ongoing governance of SBR which aims to provide a quicker and easier way for businesses to fulfil their government reporting requirements including the strategic direction, stakeholder take-up, architectural leadership and international collaboration; and

- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary.

Analysis of performance

Superannuation

Following extensive consultation with stakeholders, on 21 September 2011 the Government announced its decisions on the key design aspects of the Stronger Super reforms. Stronger Super is the Government's response to the review into the governance, efficiency, structure and operation of Australia's superannuation system (Super System Review). The Stronger Super reforms include:

- creating a new simple, low cost default superannuation product called MySuper;
- raising the bar for those managing the superannuation system, particularly for those managing default superannuation funds in which the majority of Australians invest;
- providing APRA, ASIC and the ATO with the tools they need to improve their oversight of superannuation; and
- making the process of everyday transactions easier, cheaper and faster through the Government's SuperStream reforms.

The Treasury provided advice to the Government in developing legislation to implement the reforms. During 2011-12, two tranches of legislation were introduced into Parliament and a third tranche released as an exposure draft for consultation.

- The Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011 was introduced on 3 November 2011.
- The Superannuation Legislation Amendment (Trustee Obligations and Prudential Standards) Bill 2012 was introduced on 16 February 2012.
- The Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012 was released as an exposure draft on 27 April 2012.

In August 2011, the Treasury provided a submission to the Parliamentary Joint Committee (PJC) on Corporations and Financial Services inquiry into the collapse of Trio Capital. The Treasury, in conjunction with the regulators (APRA, ASIC and the ATO), provided advice on the Government's response to the PJC report. The Treasury continues to work with the regulators to further strengthen the regulatory framework.

Infrastructure policy

The Treasury provided advice on the Government's investment in infrastructure projects announced in the 2011-12 Budget. The Secretary to the Treasury is a member of the Infrastructure Australia Council, the Government's key advisory body on nationally significant infrastructure. The Treasury is engaged in the activities of the COAG Infrastructure Working Group, including the Private Public Partnership Subgroup. The Executive Director of Markets

Group chaired the Infrastructure Finance Working Group, which was established as part of the 2011-12 Budget. The Group, which consisted of representatives from both the public and private sectors, delivered a report to the Infrastructure Australia Council identifying potential ways to encourage greater private sector investment in infrastructure.

The Treasury provided advice on the interaction of the Government's climate change policies and the Australian energy market, including the implementation of the Energy Security Council and secretariat support to the Council. The Treasury was actively engaged in the work of the Senior Committee of Officials of the Standing Council on Energy and Resources which provides advice on ongoing energy market reforms.

The Treasury worked with the Department of Infrastructure and Transport to progress COAG reforms in the transport sector to improve market-based frameworks and promote greater competition.

The Treasury provided advice to ministers on a number of matters arising under the National Access Regime in Part IIIA of the *Competition and Consumer Act 2010*. Ministers received recommendations on two declaration matters during 2011-12.

The Treasury continued to work with the Department of Broadband, Communications and the Digital Economy, the Australian Competition and Consumer Commission and other central agencies on implementing the Government's National Broadband Network policy, and providing advice on reform in the national telecommunications market.

The Treasury also continued to work with the Department of Broadband, Communications and the Digital Economy on ensuring the efficient allocation of radiofrequency spectrum, including through spectrum licence renewals and the switchover to digital television.

The Treasury led key activities of the COAG Housing Supply and Affordability Reform (HSAR) Working Party, which is responsible for reporting to COAG through the Ministerial Council for Federal Financial Relations on issues such as planning and zoning, infrastructure charges and an audit of underutilised land. The HSAR Working Party finalised the report to COAG in November 2011, and it will be released on the COAG website following the agreement of all jurisdictions.

The Treasury advised the Government on housing supply policy, funding for housing measures in, and announced after, the 2011-12 Budget and strategic analysis of all other housing matters.

Competition policy

The Treasury contributed to key outputs in the Government's competition policy legislative reform program.

The Treasury developed legislation to introduce prohibitions on anti-competitive price signalling and information disclosures to the *Competition and Consumer Act 2010,* which initially apply to the banking sector. These reforms took effect on 6 June 2012.

The *Competition and Consumer Amendment Act (No. 1) 2011* introduced the prohibitions, which were applied to the banking sector by the *Competition and Consumer Amendment Regulation 2012 (No. 1)*.

The Treasury developed legislation to clarify the mergers and acquisitions provisions of the *Competition and Consumer Act 2010* to address creeping acquisitions. The amendments were introduced as part of the *Competition and Consumer Legislation Amendment Act 2011* and took effect on 6 February 2012.

The Treasury provided advice on key competition and regulatory reforms of the COAG Business Regulation and Competition Working Group (BRCWG). This included progressing reforms in some of the 27 areas where duplicate and inconsistent regulation across jurisdictions unnecessarily burdens business. It also included supporting the Assistant Treasurer in his role as chair of the BRCWG Competition Sub-committee, which oversees the eight competition reform areas, including national transport, road pricing, national energy markets and access to infrastructure.

The Treasury coordinates the Productivity Commission's work program and advises departments and the Government on preparing terms of reference for reviews. In 2011-12, the Productivity Commission commenced five public inquiries and five commissioned studies.

The Treasury represents Australia at international forums on competition policy, and is a member of the OECD Competition Committee. The Treasury is also a member of the APEC Economic Committee and coordinates the competition policy work stream.

Consumer policy

In 2011-12, the Treasury provided advice to the Government on Australia's consumer policy framework including supporting the implementation and maintenance of the Australian Consumer Law (ACL).

The ACL includes provisions about unfair practices and fair trading, national unfair contract terms, consumer guarantees, provisions dealing with unsolicited consumer agreements, simple national laws for lay-by agreements, a national product safety regime and provisions on information standards that apply to services as well as goods.

To support the post-implementation phase of the ACL, the Treasury worked with both national and State and Territory consumer agencies during 2011-12 to maintain the policy and enforcement framework for the ACL. The Treasury played an active role in providing responsive policy advice on emerging issues through its role as Chair of the Policy and Research Advisory Committee which includes representatives from the States and Territories. This included considering proposed amendments to the ACL, the preparation of guidance material, and the development of responses to the *Australian Consumer Survey* released in June 2011.

The Treasury provided secretariat support to the COAG Legislative and Governance Forum on Consumer Affairs as well as Consumer Affairs Australia and New Zealand (including its advisory committees). The Treasury also provided secretariat support to the Commonwealth Consumer Affairs Advisory Council which in 2011-12 gave independent advice to the Assistant Treasurer on a range of consumer-related issues including through its final report *Gift Cards in the Australian Market* released in July 2012.

The Treasury represents Australia in international forums on consumer policy. The Treasury is a member of the OECD Committee on Consumer Policy. The department contributed to ongoing OECD processes to develop policy guidance to support consumers engaged in e-commerce.

National regulation of credit

The Consumer Credit Legislation Amendment (Enhancements) Bill 2011 was introduced into Parliament in 2011, and has passed the House of Representatives. The Bill includes proposals to introduce specific protections for seniors in respect of reverse mortgages, a national cap on costs (to replace inconsistent State and Territory caps), changes to make it more straightforward for consumers to obtain a variation of their repayments when they are in financial hardship, and reforms to address the current regulatory arbitrage between consumer leases and credit contracts.

These reforms supplement previous legislation introduced as part of the National Credit Reforms, following the 2008 COAG decision to transfer responsibility for consumer credit regulation to the Australian Government. The first phase of these reforms was implemented by the *National Consumer Credit Protection Act 2009*. This statute:

- replaced the State and Territory administered Uniform Consumer Credit Code with a nationally consistent consumer credit framework;
- introduced a national credit licensing system with both entry standards and ongoing conduct requirements for all persons engaging in credit activities; and
- required lenders, and those intermediaries who provide credit assistance, to meet responsible lending obligations, including assessing the capacity of borrowers to make the proposed repayments.

In 2011 the Treasury developed reforms to make the terms of home loan and credit card products more transparent to consumers, so that this market would become more competitive. The legislation to support these reforms, the *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Act 2011*, was passed in 2011.

Financial system reform

A key focus of activities during 2011-12 was providing policy analysis and advice to improve Australia's productivity and international competitiveness, and deepen the supply potential of the economy in the wake of the global financial crisis and the global recession. These policies focused on promoting economic growth and supporting employment, ensuring the financial system remained robust and dynamic, and the regulatory framework promoted macroeconomic stability and market confidence.

Treasury officials continued to participate in the work of the G20, contributing to the development of key global reforms to financial regulation, including strengthened standards for capital and liquidity. Treasury has been implementing the Australian Government's G20 over-the-counter derivatives market commitments, which require improved risk managements practices and transparency in derivatives markets.

The Treasury also contributed to the work of other international bodies to foster international cooperation in financial system regulation, corporate governance, financial reporting, auditing and corporate insolvency.

Regulation of particular market sectors addressed in those forums included hedge funds, credit rating agencies and over-the-counter derivatives.

Domestically, the Treasury progressed further initiatives to address regulatory concerns emerging from the crisis.

Financial sector crisis management

The Treasury continued to work with Australia's financial regulators to implement the reforms announced as part of the Competitive and Sustainable Banking System reform package to foster competition and stability in the banking sector. Implementation of the reforms is on track and a number of measures were completed in 2011-12, including:

- legislation to amend the *Banking Act 1959* to allow Australian banks, credit unions and building societies to issue covered bonds, which came into effect in October 2011;
- the ban on mortgage exit fees, which commenced on 1 July 2011;
- the announcement of a commitment by the banking industry and two major independent ATM companies to voluntarily provide free transactions at ATMs in selected very remote Indigenous communities;
- home loan key fact sheets, that allow consumers to compare different mortgages side by side, which became available from 1 January 2012; and
- the 'Australian Government Guaranteed Deposits' seal, to help consumers easily identify deposit products covered by the Financial Claims Scheme (FCS), now available for use.

Treasury chaired a Working Party to implement the Government's new 'tick and flick' deposit account switching service. The new arrangements, which came into effect on 1 July 2012, will make it easier for consumers to move their deposit accounts between financial institutions.

The Treasury also provided advice on Australia's financial sector crisis management arrangements, including the FCS. The FCS provides depositors and insurance policyholders with timely access to funds if a financial institution fails.

Treasury advised the Government on the implementation of its decision to make the FCS a permanent feature of Australia's financial landscape. This decision followed a joint review of the FCS undertaken by members of the Council of Financial Regulators (CFR). A new FCS cap of $250,000 per depositor per ADI came into effect on 1 February 2012 (with transitional arrangements for existing term deposits). The Treasurer also announced a number of refinements to improve the operation of the FCS. These will be progressed in 2012-13.

Treasury has worked with Australia's financial regulators to ensure the adequacy of our arrangements for crisis management and resolution, including assessing their consistency with new international standards being developed in this area. It has also worked with other CFR members to refine Australia's contingency plans for dealing with financial distress. As part of this work, Australian authorities have engaged with their New Zealand counterparts under the framework of the Trans-Tasman Council on Banking Supervision.

The Treasury continued to participate in the work of the CFR and liaised with other government agencies to monitor developments in the global and domestic financial markets and provide policy advice. The department continued to monitor developments in key overseas financial markets to inform policy considerations.

G20 commitments on over-the-counter derivatives

Treasury has been implementing the Australian Government's G20 over-the-counter derivatives market commitments made at Pittsburgh in 2009, following the global financial crisis. These commitments require improved risk management practices and transparency in derivatives markets.

During 2011-12, Treasury developed policy advice in conjunction with APRA, ASIC and the RBA, and consulted on a legislative framework to implement the G20 commitments. This framework will allow for the future creation of rules requiring the reporting of derivatives transactions, the central clearing of derivatives transactions and the use of trading venues for derivatives transactions.

The framework will be flexible enough to ensure that Australia can implement the reforms in coordination with other jurisdictions and can accommodate unexpected market changes.

Financial market infrastructure

In April 2011, the Deputy Prime Minister and Treasurer made an order under the *Foreign Acquisitions and Takeovers Act 1975* prohibiting the acquisition of ASX by Singapore Exchange Limited (SGX). In the context of this decision the Deputy Prime Minister and Treasurer sought advice from the CFR on how to ensure that appropriate resolution and recovery arrangements were in place for financial market infrastructure and that regulatory influence and control were preserved in an increasingly internationalised environment.

The Treasury chairs this working group, which also comprises representatives of APRA, ASIC and the RBA.

The CFR has advised the Government on the potential measures for ensuring Australia's regulatory system for financial market infrastructure continues to protect the interests of Australian issuers, investors and markets participants, including under a scenario where the

ASX is part of a foreign-domiciled group. Further consultations have been conducted by the Treasury and regulatory reform proposals are being developed.

Market supervision and competition

In 2011-12, the Treasury implemented the Government's decision, announced in March 2010, to support financial market competition in Australia. This involved completing the transfer of supervision of financial markets from the ASX to ASIC, and putting in place necessary regulation and other changes to allow for the launch in October 2011 of Chi-X, the first direct competitor to the ASX.

The introduction of competition has already resulted in significant savings to industry through decreased market fees and is expected to promote improvements in service quality and increased innovation.

The Treasury continues to work with ASIC in the development and ongoing review of a cost-recovery framework for market supervision in a multi-market operator environment.

Commonwealth Government Securities

The facilitation of trading of Commonwealth Government Securities (CGS) on retail financial markets forms part of the banking package announced by the Deputy Prime Minister and Treasurer in December 2010. One of the objectives of the measures in that package is to secure the long-term safety and sustainability of the Australian financial system by reducing reliance on offshore wholesale funding markets. As part of this objective the Government has committed to fostering a deep and liquid corporate bond market. Trading of CGS on retail financial markets is a crucial element of this proposal as it will provide retail investors with a visible pricing benchmark for investments they may wish to make in corporate bonds.

Treasury has been coordinating the implementation of the arrangements required to facilitate the trading of CGS on retail financial markets. This has involved the development of legislative amendments to the *Commonwealth Inscribed Stock Act 1911* and the *Corporations Act 2001*. The Commonwealth Government Securities Legislation Amendment (Retail Trading) Bill 2012 containing these amendments was introduced into Parliament on 27 June 2012.

Financial services reforms

Financial advice reform

On 26 April 2010, the Government announced the Future of Financial Advice (FoFA) reforms, which focused on improving the quality of advice and enhancing retail investor protection. Following a series of public information sessions and targeted stakeholder meetings, the Treasury developed legislation to tackle conflicts of interest that led to high profile corporate collapses such as Storm Financial, Opes Prime and WestPoint.

The *Corporations Amendment (Future of Financial Advice) Act 2012* and the *Corporations Amendment (Further Future of Financial Advice Measures) Act 2012* include a ban on conflicted remuneration structures, the introduction of a best interests duty for people providing personal advice, and compulsory renewal and fee disclosure obligations for ongoing advice relationships. The legislation received Royal Assent on 27 June 2012 and commenced on 1 July 2012. The requirements in the legislation are voluntary from 1 July 2012 and mandatory from 1 July 2013. Regulations to support the legislation are being progressed; the first package was made in July 2012. Further regulations are expected to be made throughout 2012-13.

As part of the FoFA reforms, the Government announced on 26 April 2010 that it would remove the exemption for accountants from holding an Australian financial services (AFS) licence when providing advice on the establishment and closing of self-managed superannuation funds. On 23 June 2012, the Government announced that it would introduce a new restricted AFS licence that will allow accountants to provide a broader range of financial advice services than was previously allowed. Regulations to implement this measure are expected to be made in 2012-13 ready for the commencement of a three-year transition period from 1 July 2013.

Statutory Compensation Scheme Review

As part of the FoFA reforms, Mr Richard St. John was commissioned to undertake a review of the costs and benefits of a statutory compensation scheme for financial services. On 8 May 2012, the Government released for public consultation Mr St. John's report, *Compensation arrangements for consumers of financial services*. The report concluded that it would be inappropriate to implement a statutory compensation scheme at this time. It makes recommendations to strengthen existing compensation arrangements and to review the level of responsibility assumed by responsible entities of managed investment schemes in particular. The Treasury will provide advice to the Government in response to the report and submissions.

Improving insurance disclosure

On 23 November 2011, in response to a series of natural disasters in Queensland and parts of New South Wales, the Government introduced into Parliament the Insurance Contracts Amendment Bill 2011. The Bill contained the legislative framework for the introduction of a standard definition of 'flood' to be used in home building, home contents, small business and strata title insurance policies and the provision of a one-page fact sheet for home building and home contents insurance policies. On 15 April 2012, the *Insurance Contracts Amendment Act 2012* received Royal Assent.

On 14 June 2012, the Insurance Contracts Amendment Regulation 2012 was made, which contained the wording of the standard definition of flood that is to be used in home building, home contents, strata title and small business insurance policies.

Consultation is continuing on a proposed Regulation for the introduction of the requirement to provide consumers with a one-page fact sheet for home building and home contents insurance policies.

The standard definition of flood, and the one-page fact sheet, will help consumers to better understand what their insurance policy covers.

Shorter Product Disclosure Statements

The requirement to provide Shorter Product Disclosure Statements (SPDS) for regulated superannuation and simple managed investment scheme products (except for superannuation platforms and multifunds) came into operation from 22 June 2012. SPDS provide retail clients with short, easy-to-read disclosure documents which contain the key information consumers need to be aware of before choosing to acquire an investment product.

In late December 2011, in order to address the need to transition to the new regulation, the Government specified that superannuation platforms and multifunds would be excluded from the SPDS regime until further consultation with industry and consumer groups could be undertaken.

Australia as a Financial Centre

In September 2008, the Government commissioned a panel of experts — the Australian Financial Centre Forum — to identify the key priority areas necessary to position Australia as a leading financial centre in the Asia - Pacific region.

The Australian Financial Centre Forum's report, *Australia as a Financial Centre: Building on Our Strengths*, was released in January 2010. The Government has supported all 19 recommendations. This included recommendations on the taxation of financial services, such as commissioning a Board of Taxation review of Islamic financial products and collective investment vehicles, and regulation of financial services such as the development of an Asia Region Funds Passport and a financial services regulatory online gateway for potential overseas investors.

The Asia Region Funds Passport is being led by the Treasury and progressed under the auspices of APEC. Policy and technical workshops were held in Singapore in August 2011, Kuala Lumpur in December 2011 and Bangkok in June 2012. The Asia Region Funds Passport has been endorsed by APEC Finance Ministers in 2010 and 2011.

Financial sector trends and structures

The Treasury continues to advise the Government on emerging market trends and structures by assessing market developments and new products, monitoring trends affecting competition and efficiency in the financial sector, and considering potential developments which may affect the effectiveness of existing policy settings. In addition, the Treasury has advised the Government on developments in banking; the affordability and availability of insurance; and the operation, structure and cost of the superannuation system.

Corporations regulation reforms

Executive remuneration

Treasury has continued to review the operation of Australia's executive remuneration framework, and to develop reforms to ensure that it remains robust and effective. The last round of reforms to strengthen the remuneration framework took effect on 1 July 2011 through the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011* and associated Regulations. The reforms addressed many of the recommendations made by the Productivity Commission in its 2009 inquiry into Australia's executive remuneration framework, including the introduction of the 'two-strikes' test.

Treasury is developing legislative reforms to implement the Government's decision to further strengthen Australia's executive remuneration framework. Several of the proposed reforms address recommendations made by the Corporations and Markets Advisory Committee in its 2011 report on executive remuneration, and include proposals to improve and simplify disclosures in the remuneration report, and a proposal to clawback remuneration in the event that it is later found to be materially misstated.

Director liability

Reforms have been developed to remove unjustified or excessive regulatory burdens on directors and corporate officers, and to enhance consistency between Australian jurisdictions in the application of personal criminal liability for corporate fault. These reforms will reduce the risk that directors will be prosecuted for misconduct in situations where they could not reasonably be expected to prevent the misconduct. The reforms form part of the Commonwealth's obligations under the COAG Seamless National Economy National Partnership to implement a coordinated national approach to directors' liability. A draft Bill to progress this reform, the Personal Liability for Corporate Fault Reform Bill 2012*,* was exposed for public comment.

Phoenixing reform

The *Corporations Amendment (Phoenixing and Other Measures) Act 2012* (the Phoenixing Act), which provides ASIC with an administrative power to wind up abandoned companies so that workers can access the General Employee Entitlements Redundancy Scheme, took effect from 1 July 2012. Treasury also consulted on reforms to impose personal liability on directors engaged in phoenix activity using similar company and business names.

Insolvency regulation

On 14 December 2011 the Parliamentary Secretary to the Treasurer and the Attorney-General jointly released a proposals paper, *A Modernisation and Harmonisation of the Regulatory Framework Applying to Insolvency Practitioners in Australia*. The paper sets out a framework for corporate and personal insolvency regulation that promotes a high level of practitioner professionalism and competency, enhances transparency and communication between insolvency practitioners and stakeholders, and promotes increased efficiency in insolvency administration. The Phoenixing Act also removed the burden of advertising corporate insolvency notices in newspapers by providing for the establishment of a new corporate insolvency notices website administered by ASIC.

Audit quality

A number of important reforms to enhance audit quality were identified in stakeholder feedback to the Treasury consultation paper *Audit Quality in Australia: A Strategic Review* in 2010. The Government has addressed a number of these reforms in the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, which was passed with bipartisan support on 18 June 2012 and received Royal Assent on 27 June 2012.

These reforms include the extension of audit partner rotation periods by two years under certain circumstances; the publication of annual transparency reports by certain audit firms; replacing the Financial Reporting Council auditor independence function with a strategic, high-level ministerial audit quality advice role; allowing ASIC to issue audit deficiency reports in certain circumstances; and allowing ASIC to communicate directly with an audited body on certain audit matters.

Dividends test

The Parliamentary Secretary to the Treasurer released a discussion paper in November 2011 canvassing options for possible amendments to the test for payment of dividends (dividends test), titled *Proposed Amendments to the Corporations Act*. The discussion paper addresses stakeholder feedback following reforms to the *Corporations Act 2001* in 2010, which included the replacement of the former profits-based dividends test with a net assets-based dividends test.

Treasury is preparing advice on further amendments to the dividends test in response to submissions to the discussion paper.

Advice on, and processing of, individual foreign investment proposals

Foreign investment proposals that fall within the scope of Australia's foreign investment policy or the *Foreign Acquisitions and Takeovers Act 1975* (the Act) are examined to determine whether they are contrary to Australia's national interest.

Foreign persons are required to notify the Treasurer when entering into an agreement to acquire an interest in certain types of Australian real estate or a substantial interest[1] in an Australian business or corporation valued above $244 million.[2] All foreign governments and their related entities must notify and get prior approval before making a direct investment in

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

2 Under the Australia-US Free Trade Agreement, higher thresholds apply for US investors. From 1 January 2012, the threshold is $1,062 million except for acquisitions involving US government entities or in prescribed sensitive sectors.

Australia, regardless of the value of the investment. Foreign governments and their related entities also need to notify and get prior approval to start a new business or to acquire an interest in land (except when buying land for diplomatic or consular requirements).

During 2011-12, the Foreign Investment Review Board (a non-statutory body which advises the Treasurer on foreign investment matters) provided advice to the Treasurer on major proposals. The General Manager of the Foreign Investment and Trade Policy Division is the Executive Member of the Foreign Investment Review Board.

Proposals are initially examined by the Treasury, in its role as secretariat to the Foreign Investment Review Board. Under the Treasurer's authorisation, senior Treasury officers make decisions on less complex proposals that are not sensitive; this accounts for the majority of proposals. The Treasury also undertakes associated compliance work.

In examining large or otherwise significant proposals, the Treasury consults with Commonwealth and State government departments and authorities with responsibilities relevant to the proposed activity, to assist in assessing the implications of proposals. While the majority of proposals proceed without objection, the Treasurer has powers under the Act to prohibit proposals that are contrary to the national interest, or to approve them subject to conditions that are considered necessary to ameliorate any national interest concerns. Most proposals are decided within the 30 day statutory period.

Additional information on Australia's foreign investment screening arrangements, including statistics on foreign investment, is provided on the Foreign Investment Review Board's website at www.firb.gov.au.

Advice on investment and trade policy

The Treasury provides advice to the Government on general foreign investment and trade policy matters. This has included advice on global investment and trade flows and trends, foreign government investment and trade policy responses, and the implications for Australia. The Treasury also provides advice on Australia's participation in multilateral, regional and bilateral investment and trade agreements.

Representation in international forums

The Treasury provides policy input on international investment issues in multilateral forums such as the World Trade Organization and the OECD, in regional forums such as APEC, and bilaterally through free trade agreements, Investment Promotion and Protection Agreements and other bilateral partnerships. The Treasury is involved in negotiating investment, financial services and competition-related provisions in free trade agreements.

Trade agreements/closer economic cooperation

The Treasury continued its involvement in Australia's ongoing free trade agreement negotiations with Japan, China, Korea, India, Indonesia, the Gulf Cooperation Council and the Trans-Pacific Partnership Agreement (which involves Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam; Canada and Mexico have also joined and consideration is being given to Japan joining). The Treasury participated in these negotiations together with the Department of Foreign Affairs and Trade and a range of other Australian Government agencies.

On 22 May 2012, the Malaysia-Australia Free Trade Agreement was signed and will enter into force once Australia and Malaysia have completed their domestic ratification procedures. Treasury participated in the negotiations.

OECD Investment Committee

Australia is represented at OECD Investment Committee meetings by a senior Treasury official. The committee enhances the contribution of international investment to growth and sustainable development worldwide, by advancing investment policy reform and international cooperation.

The committee also oversees the operation of the OECD Guidelines for Multinational Enterprises, a voluntary code providing recommendations for responsible business conduct in labour relations, human rights, the environment, bribery, tax and consumer welfare. As a member of the OECD, the Government promotes and implements the guidelines. This responsibility rests with the Treasury and is performed by the Australian National Contact Point, who is a senior executive of the Foreign Investment and Trade Policy Division.

In 2011-12, the Australian National Contact Point received one specific instance complaint under the guidelines. This complaint involved the operations of an Australian multinational operating in Chile. This matter was transferred to the Chilean National Contact Point as the corporation involved in the joint venture mining operation, which is the subject of the complaint, is in Chile; the key company representatives that have day-to-day decision-making responsibilities for these projects are based in Chile; and the Australian National Contact Point is not in the best position to assess whether the actions by the company in relation to the projects are valid or illegal under Chilean law; this will have some bearing on any consideration of the matter under the Guidelines.

APEC

The Treasury is a member of the APEC Economic Committee and coordinates the competition policy work stream.

International liaison

International Financial Reporting Standards regional policy forum

The sixth International Financial Reporting Standards regional policy forum, which was held in Malaysia in March 2012, was attended by many jurisdictions from the Asia-Oceania region. Australia actively participated in the forum through representatives from the Treasury, the accounting standard setters, the auditing standard setters and professional accounting bodies. The theme of the forum was ‘Convergence and Beyond, Navigating Change’.

IMF Financial Sector Assessment Program

Australia is participating in the IMF's Financial Sector Assessment Program, which is examining the stability of the Australian financial system and Australia's compliance with international standards relating to banking, insurance and securities. The Treasury is coordinating Australian authorities' engagement with the IMF as part of this process.

Coordination of business law with New Zealand

In August 2009, the Australian and New Zealand Prime Ministers agreed to principles and a range of shared short- and medium-term practical outcomes in business law for developing the Single Economic Market. The principles are:

- persons in Australia or New Zealand should not have to engage in the same process or provide the same information twice;
- measures should deliver substantively the same regulatory outcomes in both countries in the most efficient manner;
- regulated occupations should be able to operate seamlessly between each country;
- both governments should seek to achieve economies of scale and scope in regulatory design and implementation;
- products and services supplied in one jurisdiction should be able to be supplied in the other;
- the two countries should seek to strengthen joint capability to influence international policy design; and
- outcomes should seek to optimise net Trans-Tasman benefits.

The range of shared outcomes include insolvency law, financial reporting policy, financial services policy, competition policy, business reporting, corporations law, personal property securities law, intellectual property law and consumer policy.

A Trans-Tasman Outcomes Implementation Group comprising senior officials from the Australian and New Zealand governments has been tasked with overseeing and, wherever possible, accelerating the progress of the reform agenda. The Treasury and the New Zealand Ministry of Economic Development co-chair the group.

Trans-Tasman Accounting and Auditing Standards Advisory Group

The Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG) comprises representatives from the accounting and auditing standard setters, the professional accounting bodies, and the policy makers of both Australia and New Zealand. TTAASAG's focus is to ensure that the financial reporting and auditing frameworks of both countries do not unnecessarily impede Trans-Tasman business activity. During 2011-12, the Group continued to work together to progress a range of reforms designed to ensure greater commonality and alignment between the two frameworks.

Trans-Tasman Council on Banking Supervision

The Trans-Tasman Council on Banking Supervision reports to the Treasurer and the New Zealand Minister of Finance on promoting a joint approach to deliver a seamless regulatory environment for banking services. The Secretaries to the Treasuries of Australia and New Zealand jointly chair the Council; its membership also includes senior officials from the financial system regulators.

The Treasury has pursued the Council's work program, focusing on improved cooperation on crisis management.

OECD Insurance and Private Pensions Committee

The Treasury has provided the Australian representative to the OECD Insurance and Private Pensions Committee, which also includes the Working Party on Private Pensions and the Working Party on Government Experts on Insurance. In 2011-12, the committee focused on issues arising in the financial crisis that were relevant to insurance sectors and private pension funds across member countries. These included crisis resolution options, corporate structures, consumer protection and accounting standards. It also undertook further work on the OECD guidelines on insurer corporate governance in cooperation with the International Association of Insurance Supervisors.

Financial Reporting Council

The Financial Reporting Council (FRC) is the peak body responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standards-setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework.

Treasury provides secretarial support to the FRC and in relation to its quarterly meetings, and is also responsible for advising the Minister on the appointment of members to the FRC to ensure that it is broadly representative of stakeholders (including Treasury) with an interest in financial reporting. Treasury continues to maintain a close relationship with the FRC, and engages in high-level discussions with the FRC which benefits both the Treasury in the development of policy advice, and the FRC in guiding their strategic direction and activities.

During 2011-12, the FRC established five Task Forces — Integrated Reporting, Managing Complexity in Financial Reporting, Board Education, Audit Quality, and Public Sector Financial Reporting. Treasury has been actively engaged with the activities of the various Task Forces, by providing secretarial support to the Task Forces, fostering dialogue with stakeholders on the issues explored by the Task Forces, liaising with the Task Forces to form their strategic direction and providing assistance to key outputs.

Takeovers Panel

The Takeovers Panel contributed to well-functioning securities markets in Australia by dealing with 16 applications, which are essentially disputes relating to takeovers made under the Takeovers Chapter of the *Corporations Act 2001* and other control transactions. The Panel, a peer review body with regulatory functions, has 52 members who are specialists in mergers and acquisitions either as investment bankers, lawyers, company directors or other professionals. In resolving disputes, the panel helps to ensure that acquisition of control over voting shares in listed and widely-held companies occurs in an efficient, competitive and informed market; security holders and directors are given enough information; and security holders have a reasonable and equal opportunity to participate in any benefits of a proposal. The Panel also publishes guidance notes to help foster market confidence and efficiency.

In 2011-12, the panel:

- considered a number of applications alleging association considered a number of high profile applications;
- considered some significant and complex applications including truth in takeovers policy, applications of Chapter 6, bidder statement disclosure and rights issues; and
- updated the guidance note on bidder's statements (renamed takeover documents), which is the last guidance note to be rewritten under the program commenced in 2008 to review and simplify the Panel's guidance.

Financial Reporting Panel

The Government confirmed the closure of the panel in 2012 due to lower than expected referral rates. The Corporations Legislation Amendment (Financial Reporting Panel) Bill 2012 to effect the closure was introduced into Parliament on 21 June 2012.

Standard Business Reporting

SBR is a multi-agency initiative, led by Treasury and co-designed by Commonwealth, State and Territory government agencies and the private sector, to reduce the business-to-government reporting burden by providing standardised electronic reporting. SBR simplifies financial reporting to government and makes it a by-product of natural business systems. Under SBR, Australian businesses are able to use SBR-enabled software to prepare and lodge over 400 government forms directly from their software to the agencies in the program — APRA, ASIC, the ATO and the State and Territory revenue offices.

SBR was launched on 1 July 2010 and the SBR program continued to focus in 2011-12 on extending business usage of SBR's three core capabilities: the SBR online gateway, which enables reports to pass between business and government (in both directions); the SBR taxonomy (harmonised dictionary of common reporting terms); and the AUSkey credential (single secure log on for business).

While AUSkey is widely used by business (about three million times per month by the end of 2011-12), the use of SBR for report lodgment was constrained until this year by the limited availability of SBR-enabled software in the market. However, the steady increases in SBR lodgments in the December and March quarters of 2011-12 accelerated sharply in the June quarter, as new SBR-enabled software became available. By the end of the year, there were more than 80 commercial software providers licensed to develop SBR-enabled software; 15 had product in the market and this number is expected to increase significantly over the next 12 months.

Governments across Australia have endorsed SBR, which formed part of COAG's broader agenda to develop a seamless national economy (SNE). The Productivity Commission's May 2012 review of the SNE, *Impacts of COAG Reforms,* concluded by confirming that the potential benefits of SBR for business are likely to be large, of the order of $500 million per annum. The program is continuing to work at the realisation of these benefits, including through engagement with key software developers to encourage and support the development of SBR-enabled financial/accounting and payroll software products for use by businesses and reporting professionals.

Two developments during the year have strengthened the business case for SBR and have contributed positively to the development of SBR-enabled software: the Government's announcement, in September 2011, that SBR is to be the standard platform for superannuation transactions under SuperStream; and the ATO's announcement that it is adopting SBR technology to rationalise its online reporting channels by 1 July 2015.

While continuing to work at embedding the use of the existing SBR capabilities more widely across the business community, the program is increasingly focusing on the next stage of SBR's development. It is contributing to the work of the COAG Taskforce, which was asked by COAG in April 2012 to report on specific ways to remove overlaps in Commonwealth and State and Territory reporting obligations, including through the expanded use of online business reporting. COAG's commitment to addressing the 'Red Tape Challenge' by reducing reporting burdens on business is part of its new set of reform priorities.

Currency

The Treasury provided advice to Treasury portfolio ministers on a range of currency-related matters. It chaired the Royal Australian Mint Advisory Board to assist the Mint to develop its policy and administer its initiatives. The Treasury also assisted the Perth Mint in relation to its currency determinations (legislative instruments) which are tabled in Parliament before the release of numismatic (collector) coins.

Statutory and other procedural requirements

Financial sector levies

During 2011-12, the Treasury, in conjunction with APRA, consulted with industry and provided advice to the Government on the determination of financial sector levies which support APRA's operations.

Review of need for *Terrorism Insurance Act 2003*

On 1 July 2003, the Australian Government established a terrorism insurance scheme to minimise the wider economic impacts that flowed from the withdrawal of terrorism insurance following the terrorist attacks of September 2001. The *Terrorism Insurance Act 2003* requires that the Act be reviewed at least once every three years. A key recommendation of the 2012 Review was the payment of a dividend from the Australian Reinsurance Pool Corporation, the statutory body established to manage the scheme. Following the Government's agreement, the Treasury is working with the Australian Reinsurance Pool Corporation to implement the review's other recommendations. The Act will be reviewed again in 2015.

Sunsetting legislation

In October 2011, a paper was circulated to the Secretaries Board requesting the departmental coordination of sunsetting legislation. The majority of Treasury instruments are managed by Markets Group and Revenue Group.

The sunsetting regime of the *Legislative Instruments Act 2003* provides that most legislative instruments (including Regulations) cease automatically 10 years after they commence, to encourage a regular review process. Upon review, agencies can remake or seek exemptions for the instruments that they administer, or allow them to sunset if they are no longer required. Instruments start sunsetting from 2015.

The Office of Legislative Drafting and Publishing provided Treasury with a list of legislative instruments for review in October 2011, and is currently preparing a paper regarding the next stage of the process for the Secretaries Board.

Secretariat services

In 2011-12, The Treasury provided secretariat services for the Working Party implementing the Government's new 'tick and flick' deposit account switching arrangements. The Working Party was chaired by Treasury and consisted of representatives from the financial services industry, financial sector regulators and consumer groups. The new account switching arrangements were implemented on 1 July 2012.

The Treasury provided secretariat services to the Ministerial Council for Corporations (MINCO). The Treasury also assisted ministers to fulfil the Government's obligations under the Corporations Agreement 2002. A streamlining project initiated by COAG in 2011 resulted in changes to the ministerial council system. MINCO now operates as the Legislative and Governance Forum for Corporations (meeting as the Ministerial Council for Corporations). Most work priorities and operational arrangements are continuing as with the former MINCO. However, work performed by MINCO that did not fall within the new terms of reference ceased or was transferred to other agencies.

The Treasury provided secretariat support for the Financial Reporting Council, which met four times during 2011-12. This statutory body provides strategic oversight of the accounting and audit standard-setting processes, including the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB). The AASB deals with the setting of accounting standards for the public and private sectors of the Australian economy, while the AUASB focuses on the development and formulation of Australian Auditing Standards.

The Treasury provided secretariat support to the Financial Sector Advisory Council, which brings together a range of senior financial market participants to provide advice to the Government on policies to facilitate the growth of a strong and competitive financial sector.

The Treasury provided secretariat support to the Insurance Reform Advisory Group, which provides a forum in which consumers, insurers and other stakeholders can be heard by government and can contribute to the fair, efficient and effective regulation of the general and life insurance industries.

The Treasury also provided secretariat support for the COAG Business Regulation and Competition Working Group Competition Sub-committee, which is chaired by the Assistant Treasurer. The sub-committee oversees the eight competition reform areas under the National Partnership to Deliver a Seamless National Economy and met twice in 2011-12.

The Treasury provided secretariat services for the Natural Disaster Insurance Review. The secretariat also included staff from the Australian Reinsurance Pool Corporation, and APRA. The Government commissioned the review on 4 March 2011 to examine the arrangements for the insurance of the assets of Australian individuals, small businesses and governments for damage and loss associated with flood and other natural disasters. The Review presented its report to the Government on 30 September 2011, at which time the Secretariat was disbanded.

The Treasury provided secretariat support to the Energy Security Council, which was established as part of the Government's Clean Energy Future package. The Council's purpose is to provide assurance and advice to the Treasurer in the event that systemic risks to energy security emerge from financial impairment arising from any source, including from the introduction of carbon pricing. The Council is responsible for assessing two categories of applications for assistance, including: loans for generator owners who need to refinance their debt if finance on reasonable commercial terms is not otherwise available; and loans or other assistance to seek to address systemic risk to energy security in the light of the financial distress of an energy market participant.

In addition, the Treasury provided secretariat support to the National Housing Supply Council (NHSC), which met four times during 2011-12. The NHSC provides forecasts, analysis and advice on the adequacy of land supply, and construction activity to meet housing demand and improve affordability.

Australian Government Actuary

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a primary indicator of performance. The Australian Government Actuary operates a special account to ensure its financial operations are managed properly and transparently. At 30 June 2012, the account was in a sound financial position.

Demand for service was again high during 2011-12.

Consultancy services

Australian Government Actuary consultancy services typically involve analysing uncertain future financial flows using financial modelling techniques, documenting the analysis and presenting the results to clients.

Departments which sought advice included Defence; Attorney-General's; Industry, Innovation, Science, Research and Tertiary Education; Families, Housing, Community Services and Indigenous Affairs; Health and Ageing; Finance and Deregulation, and Veterans' Affairs. Centrelink and the Australian Taxation Office also sought advice.

Feedback from these agencies indicates they were generally satisfied with the advice received, and its value as an input in achieving their objectives.

Services to the Treasury

The Australian Government Actuary contributed its technical expertise on policy issues, including the superannuation system and insurance matters. The Australian Government Actuary has provided assistance with the Natural Disaster Insurance Review and the National Disability Insurance Scheme.

Operational outcomes

The office operates under the direction of an internal advisory board comprising three senior officers from the Treasury, including the Australian Government Actuary. The board reviews financial performance and oversees the strategic direction of the office.

CORPORATE STRATEGY AND SERVICES GROUP

Corporate Strategy and Services Group's mission is to provide efficient and effective corporate services, products and advice to the Treasury, Treasury portfolio ministers and other clients to enable them to meet their objectives. Corporate Strategy and Services Group also seeks to link policy strategy with organisational strategy to maintain the capacity of the department to deliver on its mission.

The four divisions in the group are Financial and Facilities Management, Information Management and Technology, Ministerial and Communications, and People and Organisational Strategy.

Key priorities

The key priorities in 2011-12 were to:

- provide production and logistics services for the 2012-13 Budget and related processes;
- finalise development and implementation of effective advertising campaigns, including on banking reform;
- deliver a successful Tax Forum;
- develop professional event management capability across the department;
- build awareness and understanding of Freedom of Information throughout the department;
- deliver streamlined and professional media monitoring services;
- provide support for new and emerging issues and announcements;
- implement new VOIP phone system and continue to improve the availability of IT infrastructure;
- attract, retain and develop a skilled and diverse workforce through further development of our workforce planning, career talent development systems;
- progress medium-term initiatives for organisational and workforce strategies based on the Staff Survey, Strategic Review, Graduate Review and Progressing Women initiative;
- coordinate the management of identified risks associated with the Work Health and Safety legislation and regulations;
- review and map the Treasury's Chief Executive Instructions (CEIs) to align with the Department of Finance and Deregulation Model CEIs;
- implement recommendations from the Treasury Protective Security Risk Review;
- rationalise off-site lease office accommodation;
- redevelop the internet and intranet, strengthen record-keeping, and commence deployment of team sites to support collaboration and knowledge-sharing;
- deliver data management and reporting tools to support forecasting activities;
- provide high level services to the Secretary and the Executive Board to support and enable key forums within the Treasury's governance framework;
- establish, coordinate and support processes within the department to develop and progress an ongoing strategic policy dialogue;
- undertake and support departmental reviews relating to organisational issues;
- ensure the effectiveness, efficiency and conformity to legislative and accountability requirements of the Treasury's activities, systems and processes; and
- continue to provide a policy implementation monitoring and advising capability.

Key outcomes

The key outcomes were:

- successful event, (print and online) publication and media relations support for several major government announcements and initiatives, including the 2012-13 Budget;
- delivery of the Banking Reform advertising campaign, and the final phases of the Education Tax Refund advertising campaign;
- successful delivery of the Tax Forum, held on 4 and 5 October 2011;
- event management capability strengthened;
- understanding and skills continue to be reinforced within the department through close work with the policy areas and effective tool and compliance development;
- efficiencies in media monitoring services developed and implemented;
- communication support provided to the Strategic Review and Progressing Women initiatives;
- new VOIP phone system delivered successfully and IT infrastructure deployed to improve availability and business continuity;
- work continuing on the implementation of recommendations from the Strategic Review and Progressing Women initiative. Workforce planning framework agreed by the Executive Board in late 2011. Enhanced and tailored workforce reporting implemented, and planning timetable for consultations established;
- graduate review, which found high levels of satisfaction with the program, with some areas identified for improvement, including a shift to three rotations of six months each to increase graduates' breadth of experience and enhance networking;
- risk registers were developed and a system implemented to continuously review and update the registers that are confirmed by the Work Health and Safety Committee;
- review and alignment of the Treasury's CEIs to the issued Model CEIs completed;
- implemented the majority of the recommendations from the Treasury Protective Security Risk Review, with the remainder to be implemented by the end of 2012;
- relinquished off-site office accommodation (Canberra) in March 2012, relocating operations back into the Treasury building;
- a redeveloped Treasury internet site was launched in April 2012;
- successfully trialled the use of team sites to facilitate information discovery, use and sharing within teams;
- the delivery of the Odysseus business intelligence platform, which enables centralised time series data management;
- providing secretariat support to the Executive Board and the Audit Committee;

- organising ongoing policy dialogue across the department, including arranging policy strategy meetings and senior executive service (SES) forums;
- implementing initial recommendations of the Strategic Review of the Treasury and commencing the work program of the Progressing Women initiative;
- developing a new risk management framework and associated products to further improve risk management and corporate planning in the Treasury; and
- policy implementation monitored through regular internal and ministerial reporting.

PROGRAM 1.2: PAYMENTS TO INTERNATIONAL FINANCIAL INSTITUTIONS

PROGRAM OBJECTIVE

The objectives of program 1.2 are to:

- make payments to the IMF, under the *International Monetary Agreements Act 1947*, to promote international monetary cooperation, exchange stability and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustments; and
- make payments to other international financial institutions, as required, to facilitate the achievement of government objectives in international forums. This includes strengthening the international financial system, support for development objectives through the multilateral development banks, and multilateral debt relief.

PROGRAM DELIVERABLES

The program deliverables are:

- payments of subscriptions to international financial institutions, including the IMF, are made with due regard to minimising cost and risk for Australia.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- financial transactions with the international financial institutions, including the IMF, are timely and accurate.

ANALYSIS OF PERFORMANCE

Australia makes significant financial commitments to international financial institutions to support their operations.

The Treasury manages most of Australia's financial relations with the IMF and capital contributions to the World Bank Group (the International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency, the International Development Association and the International Finance Corporation), the Asian Development Bank and the European Bank for Reconstruction and Development.

The Treasury conducted routine financial transactions to manage existing obligations. These were timely and efficient (see Table 1 below).

Table 1: Financial transactions with international financial institutions in 2011-12

		Nature of transaction	Number of transactions	Total $'000
Receipts				
	IMF net remuneration*	Revenue	4	3,066
Payments				
	IMF special drawing rights allocation charges*	Expense	4	11,289
	IMF financial transactions plan	Financing transaction	5	296,135
	IMF new arrangements to borrow	Financing transaction	4	436,586
	Asian Development Bank general capital increase	Investing transaction	1	14,812
	International Bank for Reconstruction and Development general and selective capital increases	Investing transaction	1	12,172

*The proportion of the IMF net remuneration and charges referring to May and June is based on estimated figures as of 30 June 2012.

PROGRAM 1.3: SUPPORT FOR MARKETS AND BUSINESS

PROGRAM OBJECTIVE

The objectives of program 1.3 are to:

- put Australia at the forefront of regional and global examination of financial sector developments and the design of regulatory responses by providing funding of $12.1 million over four years for the Centre for International Finance and Regulation. The Centre comprises a consortium of Australian and international universities, research centres and financial organisations and is led by the University of New South Wales;
- make payments in respect of insurance claims arising from the residual Housing Loans Insurance Company Limited portfolio. The Housing Loans Insurance Company Limited pre-transfer contract portfolio will be managed to ensure all liabilities arising from claims under this portfolio are met and any related debts are recovered;
- make payments of assistance to eligible HIH insurance policy holders under the HIH Claims Support Scheme. Work is now focused on finalising remaining claims so assistance can be paid, and the claims portfolio wound up; and
- make loan payment to New South Wales to assist it to provide funding to the Asbestos Injuries Compensation Fund if required, to address an expected funding shortfall. This will assist the Asbestos Injuries Compensation Fund to continue making upfront compensation payments to victims of asbestos-related diseases.

PROGRAM DELIVERABLES

The program deliverables are:

- the establishment of the Centre for International Finance and Regulation with the consortium led by the University of New South Wales selected through a competitive tender process;
- payments of claims arising from the Housing Loans Insurance Company Limited old book and assistance under the HIH Claims Support Scheme are made according to agreed schedules; and
- payments to New South Wales under the loan arrangements are made according to agreed schedules.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- payments for the Centre for International Finance and Regulation will be made according to the agreed funding schedule;
- payments of claims arising from the Housing Loans Insurance Company Limited old book and assistance under the HIH Claims Support Scheme are accurately determined and are made according to agreed schedules; and
- the loan facility to New South Wales is a temporary contingency measure for the provision of financing to the Asbestos Injuries Compensation Fund, where the Fund is not able to obtain financing in the short term from James Hardie under the Amended and Restated Final Funding Agreement. The facility will assist the Fund in the short-term to avoid entering into the rationing of payment to claimants.

ANALYSIS OF PERFORMANCE

- Payments to the University of New South Wales for the Centre for International Finance and Regulation were accurately determined and made in a timely manner.
- Payments made from the Housing Loans Insurance Corporation Limited met the cost of administering and meeting the Commonwealth's obligations arising from ongoing management of the residual portfolio of lenders' mortgage insurance contracts.
- Payments made to the HIH Claims Support Scheme met the costs of operating the scheme and providing assistance to eligible policyholders. The Treasury continues to work closely with the HIH administrators, McGrathNicol, and the contracted claims manager, Gallagher Bassett Services Pty Ltd, to settle remaining claims.
- All payments were accurately determined, in accordance with industry best practice and government regulations, and made in a timely manner.
- Loan payments made to New South Wales were accurately determined and made in a timely manner.

PROGRAM 1.4: GENERAL REVENUE ASSISTANCE

PROGRAM OBJECTIVE

The objectives of program 1.4 are to make general revenue assistance payments to the States and Territories. General revenue assistance payments consist of:

- payments of revenue received from the GST, which, in accordance with the Intergovernmental Agreement, the Commonwealth administers on behalf of the States, and which are provided without conditions for each State and Territory to spend according to their own budget priorities;
- payments to the Australian Capital Territory to assist in meeting the additional municipal costs which arise from Canberra's role as the national capital and to compensate for the additional costs resulting from the national capital planning influences on the provision of water and sewerage services;
- payments to Western Australia to compensate for the loss of royalty revenue resulting from the removal in the 2008-09 Budget of the exemption of condensate from crude oil excise;
- payments to Western Australia as a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia;
- payments to the Northern Territory in lieu of royalties on uranium mining in the Ranger Project Area due to the Commonwealth's ownership of uranium in the Northern Territory; and
- payments to New South Wales and Victoria to compensate for Commonwealth taxes paid by Snowy Hydro Ltd in proportion to the States' shareholdings.

Elements of this program are linked to the Resources, Energy and Tourism portfolio.

PROGRAM DELIVERABLES

The program deliverables are:

- General revenue assistance payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will make general revenue assistance payments to the States and Territories that reflect the requirements, the amounts and timeframes specified in the Intergovernmental Agreement; and
- the Commonwealth Treasury will provide GST revenue data on a monthly, quarterly and annual basis, and will maintain a schedule of estimates of annual net GST receipts, in accordance with the requirements of the Intergovernmental Agreement.

ANALYSIS OF PERFORMANCE

In accordance with the Intergovernmental Agreement, total general revenue assistance payments of $47.1 billion were made to the States and Territories in 2011-12. Payments included:

- GST payments to the States and Territories totalling $46.0 billion;
- payments to Western Australia of a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* totalling $0.9 billion; and
- other general revenue assistance payments totalling $185 million.

The Treasury also recouped $0.7 billion in GST administration costs in 2011-12.

Monthly, quarterly and annual GST revenue data were provided by the twentieth of each month in accordance with the requirements of the Intergovernmental Agreement.

All payments were accurately determined and made in a timely manner.

PROGRAM 1.5: ASSISTANCE TO THE STATES FOR HEALTHCARE SERVICES

PROGRAM OBJECTIVE

The objective of program 1.5 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of healthcare services. This program also has links to the Health and Ageing portfolio.

PROGRAM DELIVERABLES

The program deliverable is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Healthcare Specific Purpose Payment (SPP) and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the States and Territories are required to spend the National Healthcare SPP in the healthcare sector. Each State and Territory Treasurer will provide a report to demonstrate expenditure of the National Healthcare SPP within the healthcare sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the States and Territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in the delivery of healthcare services.

- Payments under the National Healthcare SPP were $12.5 billion.
- All payments were accurately determined and made in a timely manner, in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Healthcare SPP has been spent in the relevant sector, each State and Territory will provide a report to the Standing Council on Federal Financial Relations (the Standing Council) within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

In August 2011, agreement was reached between the Commonwealth and the States on the National Health Reform Agreement which will deliver major reforms to the organisation, funding and delivery of health and aged care.

National health reform funding commenced from 1 July 2012 under the National Health Reform arrangements, replacing the National Healthcare SPP. The Intergovernmental Agreement has been amended to reflect the changed payment arrangements for healthcare.

National health reform funding will be paid into a national funding pool to support public hospital and public health services. National health reform funding will have two elements: National Health Reform base funding—to be provided from 1 July 2012 at an amount equivalent to the National Healthcare SPP—and efficient growth funding (to be provided from 2014-15).

PROGRAM 1.6: ASSISTANCE TO THE STATES FOR SCHOOLS

PROGRAM OBJECTIVE

The objective of program 1.6 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of government and non-government school services.

This program also has links to the Education, Employment and Workplace Relations portfolio. Although the Treasury makes payments for non-government schools, where funding agreements exist, the funding and expense for the non-government schools component is in the Education, Employment and Workplace Relations portfolio.

PROGRAM DELIVERABLES

The program deliverable is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Schools SPP (government and non-government schools component) and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the States and Territories are required to spend the National Schools SPP in the schools sector. Each State and Territory Treasurer will provide a report to demonstrate expenditure of the National Schools SPP within the schools sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the States and Territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in the delivery of government schools services.

- Payments under the National Schools SPP (government schools component) payments were $3.8 billion.
- All payments were accurately determined and made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Schools SPP (government schools component) has been spent in the relevant sector, each State and Territory Treasurer will provide a report to the Standing Council within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.7: ASSISTANCE TO THE STATES FOR SKILLS AND WORKFORCE DEVELOPMENT

PROGRAM OBJECTIVE

The objective of program 1.7 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of skills and workforce development services.

This program also has links with the Education, Employment and Workplace Relations portfolio.

PROGRAM DELIVERABLES

The program deliverable is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Skills and Workforce Development SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the States and Territories are required to spend the National Skills and Workforce Development SPP in the skills and workforce sector. Each State and Territory Treasurer will provide a report to demonstrate expenditure of the National Skills and Workforce Development SPP within the skills and workforce sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the States and Territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in the delivery of skills and workforce development services.

- Payments under the National Skills and Workforce Development SPP were $1.4 billion.

- All payments were accurately determined and made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the Skills and Workforce Development SPP has been spent in the relevant sector, each State and Territory Treasurer will provide a report to the Standing Council within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.8: ASSISTANCE TO THE STATES FOR DISABILITY SERVICES

PROGRAM OBJECTIVE

The objective of program 1.8 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of disability services.

This program also has links to the Families, Housing, Community Services and Indigenous Affairs portfolio.

PROGRAM DELIVERABLES

The program objective is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Disability Services SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the States and Territories are required to spend the National Disability Services SPP in the disability services sector. Each State and Territory Treasurer will provide a report to demonstrate expenditure of the National Disability Services SPP within the disability services sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the States and Territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government’s 2011-12 financial support for the States and Territories in the delivery of disability services.

- Payments under the National Disability SPP were $1.2 billion.
- All payments were accurately determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.

- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Disability SPP has been spent in the relevant sector, each State and Territory will provide a report to the Standing Council within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

It should be noted that, from 2011-12, an adjustment is made to the National Disability SPP to ensure that the changes to Commonwealth and State roles and responsibilities for aged care and disability services, as part of the National Health Reform arrangements, are budget neutral for all jurisdictions (excluding Victoria and Western Australia, who are not participating in these changed arrangements) through until the end of 2013-14.

PROGRAM 1.9: ASSISTANCE TO THE STATES FOR AFFORDABLE HOUSING

PROGRAM OBJECTIVE

The objective of program 1.9 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of affordable housing services.

This program also has links to the Families, Housing, Community Services and Indigenous Affairs portfolio and the Health and Ageing portfolio.

PROGRAM DELIVERABLES

The program deliverable is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Affordable Housing SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the States and Territories are required to spend the National Affordable Housing SPP in the affordable housing sector. Each State and Territory Treasurer will provide a report to demonstrate expenditure of the National Affordable Housing SPP within the affordable housing sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the States and Territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in the delivery of affordable housing services.

- Payments under the National Affordable Housing SPP were $1.2 billion.
- All payments were accurately determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Affordable Housing SPP has been spent within the relevant sector, each State and Territory will provide a report to the Standing Council within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.10: NATIONAL PARTNERSHIP PAYMENTS TO THE STATES

PROGRAM OBJECTIVE

The objective of program 1.10 is:

- the Government provides financial support for the States and Territories to be spent on improving outcomes in the areas specified in each of the National Partnership agreements. These payments support the delivery of specified outputs or projects, facilitate reforms or reward those jurisdictions that deliver on nationally significant reforms.

This program is linked to the portfolios of Agriculture, Fisheries and Forestry; Attorney-General's; Australian Securities and Investments Commission; Broadband, Communications and the Digital Economy; Climate Change and Energy Efficiency; Defence; Education, Employment and Workplace Relations; Innovation, Industry, Science, Research and Tertiary Education; Families, Housing, Community Services and Indigenous Affairs; Finance and Deregulation; Health and Ageing; Infrastructure and Transport; Prime Minister and Cabinet; Regional Australia, Regional Development, Local Government, Arts and Sport; Resources, Energy and Tourism; and Sustainability, Environment, Water, Population and Communities; and Veteran's Affairs.

PROGRAM DELIVERABLES

The key program deliverable is:

- payments to the States and Territories will be made on the basis set out in each of the National Partnership agreements and any related agreements.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will make payments to the States and Territories that reflect the requirements, the amounts and timeframes set out in each of the National Partnership agreements and any related agreements. These payments will only be made upon the Commonwealth Treasury's receipt of authorisations from the relevant agency in respect of performance benchmarks or payment schedules set out in each of the National Partnership agreements; and
- the Commonwealth Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in improving outcomes in areas specified in National Partnership agreements.

National Partnership payments for 2011-12 were $18.6 billion, comprising:

- payments to support state health services of $2.2 billion;
- payments to support state education services of $6.5 billion;
- payments to support state skills and workforce development-related services of $0.37 billion;
- payments to support state community services of $1.7 billion;
- payments to support affordable housing services of $2.3 billion;
- payments to support state infrastructure services of $3.7 billion;
- payments to support state environmental services of $0.43 billion;
- payments to support other state services of $0.24 billion; and
- contingent payments to the States of $1.2 billion.

Payments were made by the Treasury on advice from portfolio agencies, with amounts certified as being correct for payment by the agency's Chief Financial Officer, or other authorised delegate.

All payments were determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.

Advice was provided to the States and Territories prior to each payment being made.

PART **THREE**

MANAGEMENT AND ACCOUNTABILITY

CORPORATE GOVERNANCE

The Treasury's corporate governance practices aim to ensure sound administrative and financial management and to comply with statutory and other external requirements. They are designed to ensure efficient, effective and ethical use of the Treasury's resources.

As part of its ongoing focus on effective governance, the Treasury periodically reviews its:

- accountability mechanisms;
- leadership, culture and communications;
- governance and committee structures;
- engagement with stakeholders to assess effectiveness;
- risk management framework, compliance and assurance systems; and
- strategic planning, performance monitoring and evaluation.

STRATEGIC AND ORGANISATIONAL REVIEWS

Strategic Review of the Treasury

The Strategic Review, announced by the Secretary in July 2011, aimed to ensure that the Treasury has the strategic capabilities to deliver on its mission over the next five years. The Strategic Review sought feedback from staff, ministers and their offices, as well as a range of public, private and community sector stakeholders on the Treasury's performance.

The Strategic Review identified four broad areas as offering opportunities for improvement. These were: Building key strengths to better support our ministers; Enhancing our engagement skills; Greater innovation and use of information technology tools; and Allocating resources and managing priorities. The Department is implementing the recommendations from the review.

Progressing Women

The Women in the Treasury project formally commenced in 2011. Treasury staff participated in consultations to examine the opportunities and challenges faced by Treasury women.

The Progressing Women initiative was developed in response to the outcomes of the staff consultations and comprises a suite of strategies to widen and deepen the pool of future leaders in the Treasury by harnessing the talents of women at all levels. Further information on the Progressing Women initiative can be found on page 143.

Revenue Group Operation and Organisation Review

This review assessed the capability of Revenue Group including the way it does its work, and advised on measures that could be made to improve its performance. The department is in the process of implementing a number of the recommendations.

SENIOR MANAGEMENT COMMITTEES AND THEIR ROLE

Executive Board

The Executive Board is the Treasury's primary decision-making body. The Treasury's Executive Board comprises the Secretary, the Executive Directors and the General Manager of Corporate Strategy and Services Group. The Executive Board is responsible for high-level policy issues relating to the Treasury's strategic leadership and management, including:

- organisational development — shaping the Treasury's future;
- policy development and coordination — involving major and/or new economic policy issues, generally with implications that involve more than one group;
- corporate governance — ensuring the efficient, effective and ethical use of resources; and
- planning and allocation of resources — meeting current and future work priorities.

The Executive Board members as at 30 June 2012 were:

- Dr Martin Parkinson, Secretary;
- Dr David Gruen, Executive Director, Macroeconomic Group — Domestic;
- Mr Mike Callaghan, Executive Director, Macroeconomic Group — International;
- Mr Jim Murphy, Executive Director, Markets Group;
- Mr Nigel Ray, Executive Director, Fiscal Group;
- Mr Rob Heferen, Executive Director, Revenue Group;
- Mr Barry Sterland, Executive Director, Policy Coordination and Governance; and
- Mr Steve French, General Manager, Corporate Strategy and Services Group.

The Executive Board is supported by the Secretary to the Board and the Strategic Projects and Governance Team within the Corporate Strategy and Services Group.

Audit Committee

The Audit Committee assists the Executive Board by independently reviewing and considering the Department's operations, its risk management framework and the integrity of its financial accounts. The Audit Committee reviews audit issues by:

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

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

The Audit Committee met seven times during 2011-12. As at 30 June 2012, the Audit Committee comprised an independent external Chair, an external representative and a number of internal members. External observers at Audit Committee meetings included representatives from the ANAO and KPMG.

People Committee

In 2012, the Treasury refocused the Staffing Committee and renamed it the People Committee. The People Committee is a strategic reference and decision-making group with responsibility for ensuring that the Treasury maintains its capability to provide sound and timely advice to government through a high-performing and flexible workforce.

The People Committee provides advice and feedback to the Corporate Strategy and Services Group on a range of people strategies, including workforce planning, and has a decision-making role to facilitate staff mobility within the department and to ensure that the Treasury engages and promotes employees with high level capabilities and potential.

Remuneration committees

Remuneration committees are established within the Executive, Corporate Strategy and Services Group and the four policy groups in the Treasury to recommend to the Secretary the determination of salary rates beyond that available through the Performance Management System for eligible APS6, EL1 and EL2 employees.

The Executive Board determines each remuneration committee's membership and the Executive Director of the relevant group chairs each remuneration committee. The committee comprises the Chair, the General Manager of People and Organisational Strategy Division and all general managers within the group. One general manager from another group acts as a cross-group representative to promote consistency of outcomes.

Inclusive Workplace Committee

The Executive Board created a new decision-making body within Treasury in 2011-12. The Inclusive Workplace Committee (IWC) has responsibility for guiding and monitoring the development and implementation of the program of work for Progressing Women initiative, the Executive Board's response to the 2011 Women in the Treasury project. The IWC comprises all members of the Executive Board, five additional internal members and two external members, and meets quarterly.

Information Management and Technology Committee

The Information Management and Technology Committee (IMTC) was established in late 2011 to provide a formal mechanism for business engagement and feedback into information management and technology strategic direction. The IMTC replaced the IT Projects Committee which provided advice on and governed the delivery of ICT-enabled projects.

The IMTC is chaired by the Group General Manager, Corporate Strategy and Services Group and comprises the Chief Information Officer, the Chief Finance Officer and a general manager or SES representative from each policy group.

Security Committee of Treasury

The Security Committee of Treasury was established in July 2011 and provides independent assurance and assistance to the Secretary and the Executive Board in relation to the department's security risk, control and compliance framework and its external accountability responsibilities.

The committee comprises the Chair (Group General Manager, Corporate Strategy and Services Group) and the general managers of the Information Management and Technology Division, Financial and Facilities Management Division, and two SES representatives from the policy groups.

Work Health and Safety Committee

The Work Health and Safety Committee established in accordance with the *Work Health and Safety Act 2011* and preceding *Occupational Health and Safety Act 1991*, facilitates cooperation between Treasury management and its workers. The committee meets regularly and comprises worker and management representatives. The committee provides a mechanism for workers and management to work together to develop and monitor health, safety and wellbeing programs and resolve any emerging issues.

SENIOR MANAGEMENT STRUCTURE

The Treasury's senior management structure is detailed in Figure 1 on page 16.

CORPORATE PLANNING AND REPORTING

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

The Executive Board sets the broad strategic direction for the Treasury through its Strategic Framework. The Strategic Framework sets out the Treasury's mission, role, policy responsibilities, key priorities, risks, values and capabilities.

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

RISK MANAGEMENT

The Treasury pursues a comprehensive, coordinated and systematic approach to risk management. It supports managers to anticipate uncertain events, exploit opportunities and respond appropriately to potential weaknesses.

- The Treasury's risk management framework was reviewed in 2011-12. The updated risk management framework aims to:
  - establish robust, yet pragmatic, risk management practices that support business needs and provide the methodology and tools to enable effective management of risk across the Treasury;
  - develop a consistent Treasury-wide understanding of risk management;
  - foster an environment where all staff assume responsibility for managing risk and where managers formally consider risks as part of the decision making process;
  - ensure that significant risks facing the Treasury have been identified, understood, documented and are being actively managed;
  - ensure that risks are assessed in a balanced way, with upside risks (opportunities) considered alongside downside risks; and
  - ensure that risk registers remain useful and practical tools with which to analyse risk.
- The Fraud Control Plan complies with Australian Government Fraud Control Guidelines.
- The Chief Executive Instructions put into effect the *Financial Management and Accountability Act 1997* requirements, setting out responsibilities and procedures which provide an overarching framework for transparent and accountable financial management. They also contain topics relating specifically to risk management and internal accountability.
- The Internal Audit Plan identifies services and functions for auditing, and is approved by the Audit Committee and the Executive Board.

- Risk management and insurable risks are aligned through Comcover and Comcare.

The Treasury uses a range of strategies to identify and manage risks associated with the delivery of IT services. New IT-enabled business solutions are assessed against key IT principles to manage IT investments strategically. The framework for delivering IT services includes:

- an IT Disaster Recovery Plan which sets out the strategies and processes to restore services if the Treasury's central computing infrastructure is lost completely or partially;
- a Business Continuity Plan for the Treasury's business which provides a process for identifying priority IT systems to restore, as well as alternative methods and processes so the Treasury can continue to work while the environment is restored;
- an IT Security Policy which addresses the requirements to protect information holdings and secure operation of the Treasury's IT resources;
- an Internet and Email Acceptable Use Policy which sets out responsibilities for appropriate use of the internet, email facilities and services;
- a Social Media Policy that helps enable external and internal engagement while ensuring protocols are in place for appropriate use of social media and to protect Treasury's reputation;
- IT Change Control Guidelines (an internal management tool) which assists with quality assurance control over proposed changes to the technical environment and facilities; and
- Project Standards, internal standards based on the structured project management methodology, PRINCE2, which ensure correct project governance is applied to IT-enabled business projects.

Training programs and staff notices raise staff awareness of risk management policies and procedures. All policies and procedures are available to staff on the intranet.

FRAUD PREVENTION AND CONTROL

No cases of fraud were reported to the Australian Federal Police in 2011-12.

The Treasury's Fraud Control Plan, reviewed in June 2012, accords with the Commonwealth Fraud Control Guidelines and the Australian National Audit Office Better Practice Guide on Fraud Control in Australian Government Entities.

The Treasury:

- has prepared fraud risk assessments and fraud control plans;
- has appropriate fraud control, prevention, detection, investigation and reporting standards and data collection procedures and processes in place, and reports annual fraud data information to the Australian Institute of Criminology; and
- has taken all reasonable measures to minimise the incidence of fraud and to investigate and recover the proceeds of fraud against the department.

ETHICAL STANDARDS AND ACCOUNTABILITY

The Treasury aims to promote a workplace which is accountable and utilises Commonwealth resources in an ethical and efficient way.

- The Treasury Management Model underpins the accountability and governance frameworks and incorporates the department's mission and values.
- The Treasury Performance Management System, along with the APS Code of Conduct, provides mechanisms for ensuring individual values and behaviours align with these shared corporate values and behaviours.
- The Treasury Workplace Agreement contains a commitment from employees to be aware of, and observe, the Treasury's and APS values.

During the induction process, new staff receive information on the Australian Public Service Commission's (APSC) Ethics Advisory Service. New starters are also encouraged to undertake an APS and Treasury accountabilities workshop, which provides participants with an understanding of the APS values and code of conduct, Treasury accountabilities and values, and corporate governance frameworks.

Under the Commonwealth Fraud Control Guidelines, the Treasury must conduct ethics and fraud awareness training. This is offered regularly to all staff, and reflects the department's commitment to maintaining an ethical culture, and promoting fraud awareness. The ethics and fraud awareness training provides attendees with an understanding of ethics, ethical challenges, resolution of ethical problems and prevention of fraud in the Commonwealth.

The Chief Executive Instructions establish the Treasury's internal policies and rules which apply the principles and requirements of the Financial Management and Accountability (FMA) Act, FMA Regulations and FMA Orders. They provide the basis for the management and effective, efficient, and ethical use of Commonwealth money, property and other resources. The Treasury reviews and updates the instructions regularly.

The Chief Executive Instructions also provide a user-friendly approach to financial management processes and guide staff so they can comply with legislation and ethical standards. Information on financial management delegations is communicated to new staff during their induction, and additional training and regular financial management forums are conducted for divisional support officers. Financial management workshops are offered to staff to assist them in understanding the APS Financial Management Framework.

All corporate governance policies and procedures are available on the intranet.

SENIOR EXECUTIVE SERVICE REMUNERATION

Terms and conditions for all of the Treasury's Senior Executive Service staff are contained in either Australian Workplace Agreements (AWAs) or individual section 24(1) determinations made by the Secretary.

Senior Executive Service staff are appraised using the APSC Senior Executive Leadership Capability Framework. This involves making individual rankings against the framework's five criteria, then arriving at an overall relative ranking for the person.

An increase in ranking based on longer-term performance can lead to an increase in base salary (see Table 4 on page 136). Additional information on remuneration is set out in Note 12: Senior Executive Remuneration in the financial statements on page 203-207.

EXTERNAL SCRUTINY

AUDIT

The Audit Committee met seven times during 2011-12. Its work included reviewing the Treasury's financial statements and a range of internal and external audit reports.

The Audit Committee's Financial Statements Sub-committee met nine times during 2011-12, with three of the meetings being related to the 2010-11 financial statements and six meetings related to the 2011-12 financial statements. The sub-committee comprises members from the Treasury, the Australian National Audit Office (ANAO), the Treasury's internal audit service provider and an external representative of the Treasury Audit Committee. The sub-committee monitors production of the financial statements and helps resolve issues.

The Treasury engaged KPMG to develop the 2012-13 internal audit program. KPMG works with the Audit Committee to continuously improve audit services by regularly reviewing the audit program and scrutinising internal audit recommendations, as well as relevant ANAO reviews.

INTERNAL AUDITS

The Treasury completed eleven internal audits/reviews during 2011-12.

End User Computing

This review assessed the Treasury's End User Model (EUM) of control. It assessed a select number of EUMs to determine the adequacy of control mechanisms around their development of maintenance; and followed up on the recommendations from the 2008 End User Computing Internal Audit. Internal Audit and Treasury agreed on actions for two recommendations to strengthen control mechanisms around the development, maintenance and support of EUMs.

Stakeholder Engagement

This review considered the Treasury's stakeholder engagement practices with the aim of identifying better practices and possible process improvements. Three initiatives/policies were assessed, with Internal Audit considering the approach adopted by the Treasury in identifying and managing external stakeholders in policy development projects. The Treasury agreed on actions for all four of the recommendations to improve management of stakeholder relationships.

Review of Prioritisation of ICT Enabled Projects

This review provided feedback and observations on ways to enhance the prioritisation process for ICT enabled projects within the Treasury. The review assessed Treasury's current prioritisation processes and, while noting existing good practice, identified opportunities for improvement. Treasury agreed to both recommendations on strengthening prioritisation processes.

Review of the Procurement Process

This review assessed the Treasury's procurement processes and systems. The report included the objectives and scope of the customer service focus of the Procurement and Contracts Team. The review listed reportable findings and the actions to resolve findings on four items.

Review of Expenditure on Consultancies

This review assessed the Treasury's capacity to accurately capture, record and report on its expenditure on consultancies. Reporting requirements are found in a number of pieces of legislation and Commonwealth guidelines. The review assessed whether Treasury has adequate business processes in place to meet the legislative requirements, including the identification of a consultant and the reporting of expenditures on consultancy. The Treasury agreed to all three recommendations, including making improvements to documentation processes and roles and responsibilities.

Review of ICT Security Vulnerabilities and Protective Security Policy Framework

This review considered the Treasury's Information Communications Technology security policy and controls and the Protective Security Policy Framework (PSPF). The review assessed the Treasury's assurance framework and involved a high-level assessment of the Treasury's readiness to comply with the PSPF mandatory requirements. The Treasury agreed to all recommendations.

Compilation of Administered Financial Reports

This review assessed the Treasury's processes and controls concerning the compilation of administered financial statements, focusing on those items where the Treasury is reliant on third parties. The Treasury and Internal Audit agreed on actions in relation to four findings to improve scrutiny of third party information being provided and to improve on certification processes involved in the provision of this information.

Energy Security Council and Clean Energy Finance Corporation

This review provided advice on the Treasury's project management and planning in relation to these initiatives.

Management of Overseas Deployees

This review provided advice on the management procedures in place for Treasury staff deployed in overseas countries, from a planning, in-country management, and reporting perspective.

Assessment of Payments against Section 83 of the Constitution

This review examined the processes and documentation adopted by the Treasury to assess compliance with Section 83 of the Constitution for the Treasury's special appropriations and special accounts.

SAP-Aurion Integration Options

This review outlined the options available to the Treasury in relation to the potential integration of the human resources and finance systems.

AUSTRALIAN NATIONAL AUDIT OFFICE REPORTS

In 2011-12, the ANAO conducted two audits that related to the Treasury's operations.

Audit Report Number 47, Small Business Superannuation Clearing House

In 2011-12, the ANAO undertook a performance audit to assess the effectiveness of the implementation and administration of the Government's Small Business Superannuation Clearing House (SBSCH). The audit examined the involvement of Treasury, the Department of Human Services and the Australian Taxation Office in the program design, implementation and subsequent operation of the SBSCH.

Between October 2011 and June 2012 Treasury assisted the ANAO in its fieldwork and through the provision of comments on issues papers and on the draft report. The ANAO tabled the report (Audit Report No. 47 2011-12) in Parliament on Friday 22 June 2012. The ANAO found that the SBSCH provides a free superannuation clearing house service that is well administered and well regarded by the businesses that use it and the superannuation funds that receive contributions through it, meeting the primary objective of the program. The Treasury agreed to the two recommendations made by the report.

Audit Report Number 53, Records Management in the Australian Public Service

This review assessed the extent to which agencies create, manage and dispose of records in accordance with key business, legal and policy requirements. The agencies included in the audit were the Australian Customs and Border Protection Service (Customs), the Department of Immigration and Citizenship, and the Treasury.

Three high-level criteria were used to assess the performance of the agencies' records management arrangements and practices. The criteria examined whether selected agencies had formally analysed their records management needs; developed and implemented frameworks and systems that adequately supported records management; and applied sound records management practices.

The audit also considered the Archives' response to Recommendation No. 1 from ANAO Audit Report No. 6 2006-07 *Recordkeeping including the Management of Electronic Records*, including whether they had clarified Australian Government records management requirements for agencies.

The ANAO tabled the report (Audit Report No. 53 2011-12) in Parliament on 27 June 2012. The ANAO found that Australian Government agencies needed to focus effort on compliance with records management requirements across records management and business systems with a particular focus on the digitisation agenda. The audit recognised that the Treasury performed record management at a satisfactory level. The Treasury agreed to the three recommendations made by the report.

Other audit reports

Other ANAO reports relevant to the Treasury in 2011-12 were:

Report No. 2	Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2010 Compliance)
Report No. 4	Indigenous Employment in Government Service Delivery
Report No. 5	Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework
Report No. 7	Records Management in the Australian Public Service
Report No. 17	Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011
Report No. 18	Information and Communications Technology Security: Management of Portable Storage Devices
Report No. 24	Administration of Government Advertising Arrangements: March 2010 to August 2011
Report No. 51	Interim Phase of the Audits of the Financial Statement of Major General Government Sector Agencies for the year ending 30 June 2012

The Audit Committee follows ANAO better practice guidelines by actively reviewing relevant matters raised in audit reports, and overseeing follow-up action. Details of audit reports are available at www.anao.gov.au.

PARLIAMENTARY COMMITTEES

In 2011-12, officials from the Treasury appeared before the following parliamentary committees:

- 1 August 2011 — Senate Economics References Committee, Finance for the not-for-profit sector.
- 18 August 2011 — House of Representatives Standing Committee on Economics, Inquiry into the Food Standards Amendment (Truth in Labelling — Palm Oil) Bill 2011.
- 12 September 2011 — House of Representatives Standing Committee on Economics, Inquiry into the Corporations (Fees) Amendment Bill 2011.
- 23 September 2011 — Parliamentary Joint Committee on Corporations and Financial Services, Collapse of Trio Capital.
- 19 and 20 October 2011 — Senate Economics Legislation Committee, Budget Supplementary Estimates.
- 24 October 2011 — Parliamentary Joint Committee on Corporations and Financial Services, Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011.
- 27 October 2011 — House of Representatives Standing Committee on Economics, Inquiry into the Tax Laws Amendment (2011 Measures No. 8) Bill 2011 and the Pay As You Go Withholding Non-Compliance Tax Bill 2011.
- 8 and 9 November 2011 — House of Representatives Standing Committee on Economics, Inquiry into the Mineral Resource Rent Tax Bills 2011.
- 16 November 2011 — Senate Rural Affairs and Transport References Committee, Inquiry into Foreign Investment Review Board National Interest Test.
- 16 November 2011 — Senate Standing Committee on Rural and Regional Affairs and Transport, Inquiry into Examination of the Foreign Investment Review Board National Interest Test.
- 13 December 2011 — Senate Select Committee on Australia’s Food Processing Sector.
- 16 December 2011 — House of Representatives Standing Committee on Economics, Tax Laws Amendment (2011 Measures No. 9) Bill 2011.
- 24 January 2012 — Parliamentary Joint Committee on Corporations and Financial Services, Corporations Amendment (Future of Financial Advice) Bill 2011, Corporations Amendment (Further Future of Financial Advice Measures) Bill 2011.
- 8 February 2012 — House of Representatives Standing Committee on Economics, Insurance Contracts Amendment Bill 2011.

- 15, 16 and 17 February 2012 — Senate Economics Legislation Committee, Additional Estimates.
- 17 February 2012 — Senate Standing Committee on Rural and Regional Affairs and Transport, Inquiry into Examination of the Foreign Investment Review Board National Interest Test.
- 21 and 22 February 2012 — Senate Economics Legislation Committee, Minerals Resource Rent Tax Bill 2011.
- 23 February 2012 — Senate Economic Legislation Committee, Corporations Amendment (Future of Financial Advice) Bill 2011, Corporations Amendment (Further Future of Financial Advice Measures) Bill 2011.
- 2 March 2012 — Parliamentary Joint Committee on Corporations and Financial Services, Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011, Superannuation Legislation Amendment (Trustee Obligations and Prudential Standards) Bill 2012.
- 16 March 2012 — House of Representatives Standing Committee on Economics, Tax and Superannuation Laws Amendment (2012 Measures No. 1) Bill 2012.
- 15 May 2012 — Senate Select Committee on Australia's Food Processing Sector.
- 28 May 2012 — House of Representatives Standing Committee on Economics, Clean Energy Finance Corporation Bill 2012.

- 29, 30 and 31 May 2012 — Senate Economics Legislation Committee, Budget Estimates.
- 4 June 2012 — Parliamentary Joint Committee on Corporations and Financial Services, Superannuation Supervisory Levy Imposition Amendment Bill 2012, Superannuation Legislation Amendment (Stronger Super) Bill 2012.
- 4 June 2012 — House of Representatives Standing Committee on Economics, Tax Laws Amendment (2012 Measures No. 2) Bill 2012, Income Tax (Managed Investment Trust Withholding Tax) Amendment Bill 2012, Pay As You Go Withholding Non-compliance Tax Bill 2012, Passenger Movement Charge Amendment Bill 2012.
- 18 June 2012 — Joint Standing Committee on Treaties, Multilateral Convention on Mutual Administrative Assistance on Tax Matters.

OMBUDSMAN COMMENTS, COURT DECISIONS AND ADMINISTRATIVE TRIBUNAL DECISIONS

Judicial and Administrative Appeals Tribunal Decisions

There were no judicial or Administrative Appeals Tribunal decisions that had, or may have, a significant impact on the operations of the Treasury in 2011-12.

Commonwealth Ombudsman

The Commonwealth Ombudsman did not issue any reports on the operations of the Treasury in 2011-12.

MANAGEMENT OF HUMAN RESOURCES

In early 2012, as a result of the Strategic Review, the Corporate Services Group and the Human Resources Division were combined with the Organisational Strategy Unit to form the People and Organisational Strategy Division within the Corporate Strategy and Services Group. These changes underline the importance of delivering all corporate and governance functions in a way that supports the Treasury's broader organisational strategy. The Corporate Strategy and Services Group also has significant responsibility for the coordination and implementation of recommendations from the Strategic Review and Progressing Women. The People and Organisational Strategy Division provides strategic and professional human resource management advice, and services that supports the Treasury to deliver on its mission.

In 2011-12, the key outcomes were:

- facilitating behavioural, organisational and cultural change by progressing the implementation of the recommendations from the 2011 Strategic Review and the Progressing Women initiative;
- implementing the outcomes from the Graduate Development Program review to enhance workforce capability and to strengthen talent management within the department;
- introduction of a workforce planning framework to drive the development of strategies to attract, retain and develop a targeted, skilled and diverse workforce;
- undertaking a consultative process with internal business groups, to determine a comprehensive risk profile for Work Health and Safety hazards and their associated risks following the implementation of the *Work Health and Safety Act 2011*;
- refreshing the department's Performance Management System to ensure it continues to support and drive individual and organisational performance;
- a review of recruitment and staff allocation processes to optimise responsiveness to changing business and workforce planning demands; and
- as part of a broad resource management strategy, the department offered a number of voluntary redundancies and incentives to retire to better situate the department to achieve future budgets.

PEOPLE MANAGEMENT SYSTEMS

All recruitment, promotion, mobility, resource planning and development processes within the Treasury are aligned with the Treasury Management Model, and the Performance Management and Career Development Systems. Treasury regularly monitors and reviews these systems to ensure they are meeting the desired outcomes.

THE TREASURY MANAGEMENT MODEL

The Treasury Management Model seeks to maximise the Treasury's effectiveness by ensuring that the department has the right people in the right jobs doing the right work. The Treasury Management Model underpins accountability and governance frameworks and incorporates the Treasury's mission and values, the approach to organising the department to achieve desired objectives, the key people systems and the development of management capability.

The Treasury Management Model includes people management principles that encourage open, two-way communication at all levels, clearly defined accountabilities, fair and transparent processes and the facilitation of work and private life balance.

PERFORMANCE MANAGEMENT SYSTEM

The Treasury's Performance Management System underpins the department's capacity to achieve its mission by strengthening individual capabilities and aligning individual values and behaviours with shared corporate values and behaviours. Performance management in the Treasury provides a means for improving individual and organisational performance, as well as supporting individual skills development and career planning.

Performance is measured through a defined capability framework called the Work Value Matrix, which outlines the set of behavioural standards expected across specified criteria at each classification level. Performance for non-SES staff is assessed against seven criteria outlined in the Work Value Matrix. Performance for SES officers is assessed against the five criteria outlined in the Senior Executive Leadership Capability Framework. These frameworks provide the basis for appraisals, and also underpin recruitment processes, the Professional Development Framework and the Career Development System.

Ratings against each capability contribute to an overall performance appraisal rating, which determines the base rate of pay for staff employed under the Treasury Workplace Agreement. The underlying principles of fairness, transparency and consistency in the Performance Management System are supported in a number of ways.

- SES context-setting meetings discuss key messages relevant to the upcoming appraisal cycle. Group and divisional context-setting meetings follow to communicate these key messages.
- Workshops and information sessions for staff and managers delivered before each appraisal round provide information on the appraisal process and assist staff to develop skills in giving and receiving feedback.

All appraisals are subject to oversight by review panels. Review panels are held at the divisional level to examine the outcomes of appraisals to ensure consistency in the application of the framework across each division. Cross-group representatives ensure objectivity and consistency in the application of the Work Value Matrix and ratings across the department.

Feedback is sought on managers by the manager-one-removed to inform their appraisals.

Treasury's Performance Management System was refreshed in 2011-12 to support recommendations from the Strategic Review and Progressing Women initiative. In particular, the objective of the refresh was to ensure the Performance Management System drives and supports individual and organisational performance to enable Treasury to deliver on its mission; strengthen staff understanding of the Performance Management System; and ensure consistent application of the Performance Management System. Outcomes of the Refresh, including rolling out mandatory performance training for all staff, will be implemented throughout 2012-13.

REMUNERATION COMMITTEES

Remuneration committees are established in each Group to make recommendations to the Secretary in relation to the allocation of pay points for APS6, EL1 and EL2 staff.

Each remuneration committee considers a range of factors in arriving at balanced judgements about the relative value of skills and outputs of staff in their Group and to the Treasury as a whole. The predominant factor in determining the allocation of pay points is demonstrated sustained performance.

Cross-group representatives and the General Manager of People and Organisational Strategy Division attended group remuneration committees to facilitate consistency of remuneration committee recommendations across groups. People and Organisational Strategy Division provided the Executive Board with departmental and group data and analysis to inform departmental outcomes.

Aggregate data on remuneration committee outcomes is provided on the Treasury intranet.

CAREER DEVELOPMENT SYSTEM

The Career Development System is a key element of the Treasury's people management system and seeks to foster a shared individual and organisational responsibility for career development. The system applies to all staff, including temporary employees and secondees with at least six months continuous service, and provides staff with the opportunity to consider and clarify career aspirations and receive career development guidance from their manager-one-removed.

TREASURY WORKPLACE AGREEMENT

The *Treasury Workplace Agreement 2011-14* came into operation from 1 July 2011 and nominally expires on 30 June 2014.

The new agreement provides for increased pay rates of 4 per cent from 1 July 2011, 2.5 per cent from 1 July 2012 and 2.5 per cent from 1 July 2013. The agreement incorporates many of the Australian Public Service Commission's model clauses to assist in the Government's aim of achieving consistency between agencies.

In recognition of the benefit to Treasury of employees undertaking initiatives of their own to achieve a healthy lifestyle, the agreement provides eligible non-SES staff with the option of applying for a single lifestyle contribution payment of $600 in 2012, 2013 and 2014. As at 30 June 2012, 920 staff had accessed the lifestyle contribution.

As part of a broader resource management strategy to reduce staff numbers over time, the Treasury conducted a voluntary redundancy and incentive to retire process in 2011-12. This process was undertaken with reference to relevant legislation and to the management of excess employees process outlined in the *Treasury Workplace Agreement 2011-14.*

WORKPLACE RELATIONS

The Treasury consults extensively with staff on workplace matters, and the Workplace Agreement reinforces staff involvement in decision making. Consultation primarily occurs through the Workplace Relations Committee, elected by Treasury staff and comprising eight members. The committee meets regularly with People and Organisational Strategy Division staff to discuss employment terms and conditions, and meetings with the Secretary encourage dialogue on issues of importance to staff. Terms of Reference for the Workplace Relations Committee reflect a principles-based approach to workplace relations.

The Treasury Workplace Agreement and individual arrangements provide access to procedures to resolve disputes and directly consult with staff as appropriate.

RECRUITMENT AND SUCCESSION PLANNING

The Treasury's recruitment activity in 2011-12 included two major recruitment campaigns, selection processes for senior executives at the Band 1 level, a graduate campaign, an internship program, and an indigenous cadetship program. A total of 66 recruitment processes were advertised in 2011-12 and a total of 177 employment opportunities were filled from advertised vacancies. The Treasury recruited 53 policy and corporate graduates in 2011-12.

Graduate recruitment continues to form a major part of the Treasury's recruitment and succession planning strategies. In 2011-12, Treasury staff attended eight university career fairs and two online virtual careers fairs. These gave potential graduates the opportunity to find out about the Treasury from anywhere in Australia. Brochures entitled '*Your future. Australia's future'* were distributed to university careers centres and faculties. In addition, advertisements were placed in university career guides, online graduate publications and university career web pages. During 2011-12, the Treasury introduced a Corporate Graduate Program, specifically targeting graduates with degrees in human resources, psychology, accounting, financial management, information technology, communications, marketing and web/graphic design. Treasury engaged five corporate graduates from this program.

During December 2011 and January 2012, the Treasury engaged 19 interns. The Treasury Internship Program targets disciplines including economics, commerce, law, finance and accounting and involves a 6 to 12 week paid placement which exposes students to public policy.

Job seekers can access selection documentation and lodge applications via the Treasury's internet careers portal. The portal also allows candidates to register for non-ongoing employment, and former staff to register as alumni for short-term employment and project work.

The Treasury continues to utilise the recruitment service provider's panel for scribing services, placement of non-ongoing staff and executive search functions.

Information and guidelines for secondees to the Treasury were revised in June 2012. Staff were seconded to the Treasury for various policy initiatives, such as the review of GST Distribution Taskforce and in specialist taxation areas. Secondees from the Treasury continue to work on a variety of initiatives across a number of agencies both within the APS and private sectors.

LEARNING AND DEVELOPMENT

The Treasury implements a number of learning and development strategies to develop staff in their current and future roles. Strategies incorporate a broad range of elements including the APS values, whole-of-government initiatives, departmental functions, priorities and organisational capabilities, and the Treasury's people management systems.

The Treasury's total investment in off-the-job professional development totalled over $1.8 million in 2011-12, representing an average of three days of development per staff member. This figure represents registration fees for internal and external training courses, financial studies assistance, external providers' development, delivery and evaluation costs, and overheads relating to off-the-job professional development, such as venue hire.

Learning and development strategies

The Treasury provides extensive learning and development opportunities designed to develop and enhance individual and organisational capabilities. These include in-house one or two-day workshops, leadership and development programs, as well as external opportunities such as studies assistance, postgraduate study awards and participation in broader public sector development initiatives.

A range of professional development workshops were offered through the Treasury's learning and development calendar throughout 2011-12, including APS and Treasury accountabilities, writing and grammar skills, managing workloads, presentation skills, negotiation skills, representational skills, problem solving and providing oral advice. Two-day policy advising workshops delivered by senior internal and external presenters used case studies and hypotheticals to develop policy advising capabilities of analysts and executive level staff. All workshops were tailored to the Treasury's current operating environment and evaluated to ensure programs are effective in delivering the desired outcomes and objectives.

The Treasury continues to support and provide input to the development and implementation of reform initiatives that are critical to the Blueprint for the Reform of Australian Government Administration agenda. During 2011-12, Treasury staff participated in programs that were established under strategic partnerships between the Commonwealth Government and the Australian National University, such as courses offered by the Australian National Institute for Public Policy and the National Security College. The Treasury also participated in the inaugural Sir Roland Wilson Foundation Scholarship scheme. The Treasury maintains close relationships with the APSC on the development and direction for the establishment of the Strategic Centre for Leadership including participation in the pilot SESB2 Talent Development Program and the Jawun Secondment Program.

Several in-house postgraduate courses were managed by the Treasury during 2011-12. The two-year Graduate Diploma in Economic Studies, which commenced in March 2011, continued with 25 participants, including 14 participants from other agencies. The course is delivered by Monash University and is tailored to public sector agencies, with a focus on public policy. The course is designed for staff qualified in disciplines other than economics and facilitates an understanding of economic frameworks and public policy issues.

Semester-long Introduction to Law, and Introduction to Economics courses are delivered in-house by the Australian National University. The aim of these programs is to provide an understanding of the fundamental principles of law and economics to staff without tertiary qualifications in these fields. Evaluations for Introduction to Law reflect high levels of satisfaction with the quality of teaching and impact of the courses on staff knowledge and understanding.

The Treasury offers a number of programs to support leadership and management development. The Executive Leadership Program, targeted at experienced EL2 staff, aims to enhance the leadership and strategic thinking skills of executive level staff and provide the necessary skills to fulfil their leadership roles under the Treasury Management Model. In 2011, 18 staff participated in the program over 13 contact days. Evaluation reports inform recommendations on the development of future programs.

The Management Development Program is designed to provide new and emerging managers with the practical tools and skills to equip them to fulfil their roles under the Treasury Management Model and assist in building their capability for future advancement. Twenty four staff participated in the seven day program during 2011. Ninety-five per cent of participants considered that the course had a positive impact on their skills development, all indicating that the program met or exceeded their expectations.

The 12-month Graduate Development Program continued to combine on-the-job training with formal in-house courses, such as advanced writing, APS and Treasury Accountabilities, presentation and negotiation skills, and economics for graduates without economics qualifications. The program also included external courses, such as Introduction to the Senate and participation in key events such as the budget lock-up. The review of the graduate program that focused on graduate recruitment, retention and development strategies was completed. A number of improvements have been implemented from this review including improved feedback mechanisms, a graduate manager's toolkit and the introduction of work rotations to provide graduates with broader exposure to the department. These enhancements will be evaluated with an ongoing focus on improving the program to meet the workforce planning needs of the department.

Treasury SES staff are offered access to an SES Executive Coaching Panel which is designed to provide staff with the opportunity to access confidential, targeted and expert guidance on specific issues or to assist in longer-term skills development. The Treasury liaises with coaches to oversee the program and to identify any systemic issues of importance to the department.

Induction seminars for new staff were offered in October 2011 and March 2012. Additional support for new staff was also provided through the New Starters Support Program and briefing sessions on other services offered by the Treasury.

The Treasury Seminar Series continued with 26 prominent external guest speakers presenting perspectives on current economic and public policy issues. The Treasury's policy groups also continued to offer seminars on specific policy issues.

The first seminar in the Treasury Leadership Series was delivered in June 2012. The seminars are designed to provide staff with valuable perspectives and insights on leadership from high profile leaders in the public and private sectors.

One of the first strategies to be initiated as part of the Progressing Women initiative was the procurement of pilot awareness training on unrecognised bias for members of the Inclusive Workplace Committee. The aim of this program was to assist participants to identify and understand underlying and unrecognised biases on the part of men and women that may impact on judgements of management, leadership styles and the allocation of work for women in the Treasury. Phase one of the training was completed during May and June 2012 with a broader program (phase 2) expected to be rolled out to all SES and EL2 officers between September and November 2012.

IT initiatives and training

In 2011-12, internal IT training attracted 1,592 participants. It covered the Microsoft Office suite of programs such as the Office 2010 upgrade, in-house systems, record-keeping awareness, security awareness, electronic filing using TRIM, publication projects and the budgeting and reporting tool TM1. Training was also provided to staff in the use of Blackberry and remote access tokens.

Customised training in Excel and VBA catered to special needs and VOIP training was provided to assist staff with the rollout of the new telephone system.

External learning and development opportunities

In addition to providing internal learning and development opportunities, the Treasury encourages staff to participate in a range of external learning and development activities. In 2011-12, these included postgraduate qualifications and research projects, as well as attendance at Career Development Assessment Centres, Australia and New Zealand School of Government (ANZSOG) programs, and various conferences, seminars and workshops of relevance to the Treasury. One officer continued the ANZSOG program in Executive Masters in Public Administration in 2011-12.

The National Security College is a joint venture between the Commonwealth Government and the Australian National University. The College aims to enhance the functioning of the national security community and strengthen networks and policy capability within the APS by building partnerships with academia, research institutions, and the community and private sectors. Six Treasury staff participated in the courses offered by the National Security College in 2011-12.

During 2011-12, Treasury staff attended 208 external training courses, conferences or seminars of relevance to the department.

Studies Assistance provided financial assistance and study leave for staff undertaking approved study relevant to the Treasury. A total of 157 staff were approved for Studies Assistance in 2011-12, for study primarily undertaken in economics, law, commerce and public policy.

A one-year Treasury Scholarship in Economics was offered to one student enrolled in the Australian National University's Bachelor of Economics Program.

In partnership with the Commonwealth Government and the Sir Roland Wilson Foundation, five inaugural scholarships were awarded to staff in the Australian Public Service. The scholarships are designed to nurture future senior leaders in the APS and strengthen ties between academia and the Australian Public Service. Two of the five scholarships were awarded to Treasury staff. These staff members commenced their PhD studies at the Australian National University in February 2012.

WELLBEING

The Treasury measures and monitors staff wellbeing indicators through staff opinion surveys, exit survey reports and human resource data. Performance is also assessed against the Staff Wellbeing Framework to monitor agency health and identify potential risks to organisational capability. Performance is also benchmarked against the broader APS and similar private sector organisations. The People and Organisational Strategy Division provides regular reports to the Executive Board, the People Committee, the Workplace Relations Committee, the Inclusive Workplace Committee, the Work Health and Safety Committee and staff that includes the results and strategies developed to improve performance.

State of the Service results

The agency-specific employee survey results for the Treasury were strong with satisfaction levels continuing to be more favourable than the APS average in a number of key areas, including employee job satisfaction, immediate manager effectiveness, the quality of senior leadership, valuing of staff contribution, satisfaction with learning and development opportunities and respect within work groups.

The Treasury's results for employee engagement were higher than those for the APS. Treasury staff enjoy their work, are motivated to do the best possible work, and are more likely than the broader APS to receive a sense of being valued for their work.

An area for improvement was satisfaction with work-life balance. The Treasury results (62 per cent) were slightly lower than those recorded for the APS as a whole (67 per cent). This issue continues to be of ongoing concern to the Treasury and remains an important focus for the Executive Board.

The Executive Director, Policy Coordination and Governance and Chief Risk Officer undertook a series of meetings with Groups to discuss the adequacy of overall management of stress and fatigue risks. These consultations focused on promoting best practice strategies that were employed by different areas of the department.

Staff opinion survey

Treasury conducted its own biennial staff opinion survey in October 2011. The survey indicated satisfaction ratings of 80 per cent and above in pride in working for the Treasury, willingness to put in effort to achieve results, respectful and supportive environment provided by managers, and in motivation to do the best job they can.

Resilience program

The Treasury seeks to identify anticipated peak work periods and offers divisions the opportunity to take part in a customised Emotional Resilience Program.

The program aims to increase individual and team resilience by enhancing the ability to cope with dynamic and complex work situations. The program also provides useful strategies for managing sustained pressure and deadlines, communication, resilience and team-building.

A resilience training course was provided to staff in the Macroeconomic Group in June 2012 as a proactive response to dealing with frequent tight deadlines and associated stress management. Attendance was high with 120 staff participating in the training sessions. The course encouraged staff to manage their own health and safety in dealing with stress and fatigue.

Employee assistance program

The Treasury provides staff and their immediate family members with access to an employee assistance program. The program provides a free professional and confidential counselling service to assist staff experiencing work-related or personal problems. The employee assistance service collects generic data that provides guidance for departmental wellbeing strategies. To complement this service, the employee assistance service also offers an online wellbeing resource which provides interactive and user-friendly information and guidance on work and personal issues. Managers and executives may seek advice and support on managerial issues through a dedicated and confidential program.

The service provider conducted two staff seminars during 2011-12, one outlining the benefits of seeking counselling to assist in managing personal and professional concerns and the other on positive parenting. In 2011-12, due to contract and procurement arrangements, the Treasury utilised two separate employee assistance programs. The provider for the period July to November 2011 reported usage rates of 4.3 per cent. The second provider recorded usage rates of 1.8 per cent for the remainder of the financial year. The average APS access rate for 2011-12 was slightly higher than the Treasury usage rate, averaging 6.04 per cent.

Child care centre

In 2010-11 the Treasury built onsite childcare facilities for Treasury staff in the Abacus Childcare and Education Centre which is managed by the Department of Finance and Deregulation.

The centre offers 143 child care places with a total of 65 children from Treasury families in care at the centre at 30 June 2012. The centre recently expanded the outdoor play area and provides regular events for families, as well as excursions within the Parliamentary Triangle for children in care at the centre.

Health and wellbeing program

In 2011-12 a health and wellbeing program was delivered in recognition of the need to address wellbeing on a regular basis and provide staff with greater opportunities to access health-related activities and seminars.

The Treasury facilitated seven health and wellbeing activities during 2011-12 including 283 staff health assessments, 422 Influenza vaccinations, and health and wellbeing information seminars. A mindfulness seminar was organised with the Honourable Jeff Kennett speaking on the Beyond Blue National Depression Initiative. Approximately 300 staff participated in the health and wellbeing seminars. Staff were also offered the opportunity to participate in health and fitness training during lunch times.

Lifestyle payment and corporate gym memberships

To assist employees in undertaking initiatives towards maintaining a healthy lifestyle, an annual lifestyle payment of $500 was available in 2011 and increased to $600 in 2012. The lifestyle payment is available for activities such as gym memberships, sporting apparel and relaxation programs. The Treasury also has a corporate gym membership with Treasury employees able to access reduced memberships from five participating gyms. From 1 July to 31 December 2011, 18 lifestyle payments of $500 were made to Treasury employees and from 1 January 2012 to 30 June 2012, 920 lifestyle payments of $600 were made to Treasury employees.

STAFFING INFORMATION

Ongoing and non-ongoing employee numbers in the Treasury decreased from 1,053 in 2010-11 to 988 in 2011-12 (Table 2).

Voluntary redundancies were offered, and 62 employees accepted an offer. As a consequence of the voluntary redundancy process and natural attrition, there was a decrease in staff numbers across all levels, except at the APS4 level, where this figure rose from 58 to 59. The most significant decrease was at the APS3 level, where staffing numbers reduced by 18. The number of EL1 and EL2 employees decreased by 6 and 14 respectively.

Part-time employees reduced slightly from 11.68 per cent in 2010-11 to 11.03 per cent in 2011-12. Part-time females at the EL1 level increased from 23 in 2010-11 to 30 in 2011-12. Part-time APS6 level females reduced from 17 to 11.

Table 2: Operative and paid inoperative staff by classification and gender as at 30 June 2012

	Ongoing				Non-ongoing				
	Full-time		Part-time		Full-time		Part-time		
Classification	Male	Female	Male	Female	Male	Female	Male	Female	Total
Cadet		1			3				4
APS1		1			1				2
APS2	1			1					2
APS3	32	46		1					79
APS4	23	24		11	1				59
APS5	74	74	1	7					156
APS6	115	92	5	11	3				226
EL1	97	72	2	30		2	1	2	206
EL2	93	44	8	24	4	1			174
SES Band 1	40	10	1	3	1	1			56
SES Band 2	10	6		1					17
SES Band 3	6								6
Secretary	1								1
Total	492	370	17	89	13	4	1	2	988

Note: Staff paid by other agencies are not included.

Table 3: Staff located at overseas posts

Overseas post	SES Band 2	SES Band 1	EL2	Total
Beijing	–	1	–	1
India	–	1	-	1
Jakarta	–	1	–	1
London	–	1	–	1
Paris	–	1	–	1
Tokyo	1	-	–	1
Washington	–	1	–	1
Total	1	6	–	7

Note: Locally engaged staff are not included.

Senior Executive Service remuneration

Remuneration and conditions for the Treasury's Senior Executive Service (SES) are determined under AWAs and section 24(1) determinations, supported by a remuneration model that determines pay levels within each SES level, based on performance (Table 4). The Treasury does not offer performance pay.

Table 4: Salary scales — SES

	September 2010		September 2011	
	Minimum	Maximum	Minimum	Maximum
Classification	$	$	$	$
SES Band 1	173,667	201,839	180,614	209,913
SES Band 2	212,852	249,134	221,366	259,099
SES Band 3	275,842	323,054	286,876	335,976

Senior Executive Service staff are appraised using the APSC Senior Executive Leadership Capability Framework to assess performance and rank each employee relative to their peers. An increase in relative ranking can lead to an increase in base salary.

Remuneration — non-SES employees

The *Treasury Workplace Agreement 2011-14* determines salary rates for all non-SES staff (Table 5). The Treasury does not offer performance bonuses.

Table 5: Workplace agreement salary scales — non-SES

	July 2010		July 2011	
	Minimum	Minimum	Minimum	Maximum
Classification	$	$	$	$
APS1	39,488	42,882	41,068	44,597
APS2	45,517	48,530	47,338	50,471
APS3	51,543	55,554	53,605	56,736
APS4	57,568	60,580	59,871	63,003
APS5	64,725	68,869	67,314	71,624
APS6	73,012	88,456	75,932	91,994
EL1	95,236	109,247	99,045	113,617
EL2	116,328	133,505	120,981	138,845

Under the *Treasury Workplace Agreement 2011-14*, access to some pay points for APS6, EL1 and EL2 staff can only be determined by the remuneration committee process and are based on sustained performance under the Treasury's Performance Management System.

Senior management changes

Several senior management movements occurred in 2011-12 (Table 6).

Table 6: SES commencements and cessations

Reason	SES Band 3	SES Band 2	SES Band 1	Total
Engagement	1		4	5
External promotion		1		1
Internal promotion				
Resignation			1	1
Retirement	1		5	6
Transfer to another department		1	1	2
Promoted to another department				
Total	2	2	11	15

During 2011-12 six SES commenced in the Treasury, including Mr Barry Sterland who joined the Executive Board from the Department of Prime Minister and Cabinet. Mr Sterland replaced Mr Richard Murray who retired after 41 years in the Australian Public Service; the majority of this time was spent in the Treasury.

Mr Matt King was promoted to an SES band 2 from the Department of Prime Minister and Cabinet as Treasury's Chief Financial Officer.

There were five retirements at the SES band 1 level, four of whom retired under Section 37 of the *Public Service Act 1999.*

There were no internal promotions at the SES level during 2011-12.

ASSETS MANAGEMENT

The Treasury has developed an asset management framework. The framework includes:

- an asset register that records details of all assets held by the Treasury. Assets on the Treasury's register are subject to an annual stocktake to keep records accurate and up-to-date;
- an asset management guide that sets out the Treasury's policies and asset management guidelines for the day-to-day care and custody of assets. The guide is incorporated into the Treasury's Chief Executive Instructions. Further details on the Treasury's asset policies are in notes 1.14 to 1.18 of the Treasury's Financial Statements; and
- a capital management plan that sets out the Treasury's longer term asset requirements and funding sources for ongoing asset replacement and investment. The Treasury's capital budget process is integrated with strategic planning and occurs prior to the beginning of each financial year, in conjunction with the Treasury's annual operating budget process. In determining the capital budget, the Treasury considers the level of funding available for asset purchases, immediate and longer term asset replacement requirements and organisational opportunities that an investment in new assets can address.

PURCHASING

The Treasury's purchasing activities are undertaken in accordance with government policy and best practice. Procurement of all goods and services is consistent with the requirements of the Commonwealth Procurement Guidelines. The Treasury applies the guidelines to all its activities through the Chief Executive Instructions and supporting operational guidelines.

The Treasury's purchasing processes focuses on the core principle of value for money. We achieve this through:

- undertaking competitive, non-discriminatory procurement processes;
- the efficient, effective, ethical and economical use of resources;
- by ensuring decisions are made in an accountable and transparent manner.

Responsibility for procurement is devolved to individual policy groups with support from a central team of procurement specialists. The Treasury supports devolved procurement by providing a central single point of contact for staff seeking purchasing advice, and by providing ongoing support and training about procurement policies and procedures to staff. The Treasury's procurement framework makes appropriate financial delegates responsible for procurement. Currently, all proposed procurements valued at $10,000 or more are reviewed by the Treasury's Procurement and Contracts Team to ensure due process is followed.

The Treasury did not let any contracts during 2011-12 of $100,000 or more which did not provide for the Auditor-General to have access to the contractor's premises and did not have any contracts that were exempted from being published on AusTender.

The Treasury publishes, on the AusTender website at www.tenders.gov.au, all contracts awarded with a value of $10,000 or more, and, in an annual procurement plan, information about significant procurements the department expects to undertake during the following year.

CONSULTANTS

The Treasury engages consultants where specialist skills are required that are not available in-house or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice, information or innovative solutions to assist in the Treasury's decision making.

Prior to engaging consultants, the Treasury takes into account the skills and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with the FMA Act and related regulations including the Commonwealth Procurement Guidelines (CPGs) and relevant internal policies.

Providers of consultancy services are selected through the following methods:

- Open tender — a procurement procedure which publishes a request for tender, inviting all businesses that satisfy the conditions for participation to submit tenders. Public tenders are generally sought from the Australian Government AusTender website.
- Select tender — a procurement procedure which allows the procuring agency to select potential suppliers and invite them to submit tenders (including through multi use lists). This process may only be used in certain defined circumstances.
- Direct sourcing — a form of restricted tendering, available only under certain defined circumstances, with a single potential supplier or suppliers being invited to bid because of their unique expertise and/or special ability to supply the goods and/or services sought.
- Panel — an arrangement whereby a number of suppliers, initially selected through an open tender process, may each supply property or services to an agency as specified in the panel arrangements. Quotes are sought from suppliers that have pre-qualified on the agency panels to supply to the Government. This category includes standing offers and supplier panels where the supply of goods and services may be provided for a pre-determined length of time, usually at a pre-arranged price.

During 2011-12, 101 new consultancy contracts were entered into involving total actual expenditure of $5,196,273. In addition, 44 on-going consultancy contracts were active during the 2011-12 year, involving total actual expenditure of $3,202,791. These amounts include GST.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website www.tenders.gov.au.

AUSTRALIAN NATIONAL AUDIT OFFICE ACCESS CLAUSES

The Treasury is required to provide details of any contract let during 2011-12 of $100,000 or more (inclusive of GST) that does not provide for the Auditor-General to have access to the contractor's premises. The Treasury must include the name of the contractor, purpose and value of the contract, and reason for not including standard access clauses in the contract.

The Treasury did not have any contracts over $100,000 that did not provide for the Auditor-General to have access to the contractor's premises.

EXEMPT CONTRACTS

The Treasury is required to advise if any contract in excess of $10,000 (inclusive of GST) or a standing offer has been exempted by the Chief Executive from being published on AusTender on the basis that it would disclose exempt matters under the *Freedom of Information Act 1982*. The fact that the contract has been exempted and the value of the contract or standing offer must be reported to the extent that doing so does not in itself disclose the exempt matters.

The Treasury did not have any contracts that were exempted from being published on AusTender.

WORKPLACE DIVERSITY

The Treasury is committed to providing an organisational culture that embraces and actively promotes diversity. Several important initiatives were introduced in 2011-12.

Treasury launched the Progressing Women initiative after staff consultations in 2011 that identified challenges faced by Treasury women. Progressing Women comprises a suite of strategies to widen and deepen the pool of future leaders in the Treasury by harnessing the talents of women at all levels. The strategies are based on five themes:

- leadership, governance and accountability;
- workplace policies;
- training and networks;
- performance assessment and career development; and
- measuring success.

To achieve these themes, the Treasury has:

- formed the Inclusive Workplace Committee with internal and external representation;
- conducted training for the Inclusive Workplace Committee on unrecognised bias with a wider rollout scheduled for 2012-13;
- consulted on flexible work arrangements, including presentations by senior staff who have worked in part time and other flexible working arrangements while in senior positions; and
- commenced the design and development of a mentoring scheme.

In early 2012, the Treasury nominated a participant in the Jawun Indigenous Corporate Partnerships Program 2012. This secondment will take place in 2012-13.

The Treasury employed four Indigenous Cadets in 2011-12 through the APSC's Indigenous Cadetship Program. They are studying business, commerce and law.

At 30 June 2012, 11 per cent of Treasury staff worked part-time. Nearly half of these staff were executive level employees or SES. Both male and female employees have used part-time work to enable them to balance work and family requirements. In addition to part-time work, the Treasury maintained access for staff to access job-share arrangements and home-based work through its 2011-14 Workplace Agreement. These flexibilities help the Treasury to contribute to the retention of staff with valuable skills and knowledge.

At 30 June 2012 (see Table 7 below), departmental staff comprised:

- 47 per cent women;
- 24.6 per cent born overseas;

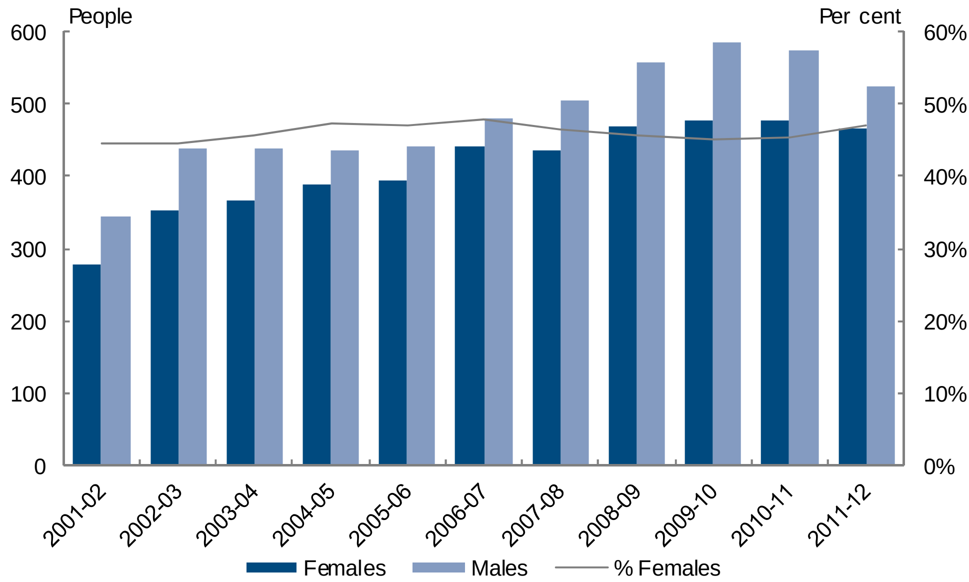
- 0.7 per cent who identified as Indigenous;
- 12.3 per cent with English as a second language; and
- 1.7 per cent who identified as having a disability.

Table 7: Operative and paid inoperative staff by Equal Employment Opportunity target group (as at 30 June 2012)

Classification	Female	Born Overseas	English as second Language	Indigenous	Disability
CADET				4	
APS1	1				1
APS2	1				1
APS3	47	19	8		
APS4	35	12	8		2
APS5	81	36	30		1
APS6	103	52	31	1	4
EL1	106	63	31	2	1
EL2	69	42	11		4
SES1	14	15	2		3
SES2	7	2	1		
SES3		3			
Grand Total	464	244	122	7	17

As at 30 June 2012, 47 per cent of the Treasury's workforce were women. This is an increase over the 30 June 2011 figure of 45.4 per cent and only slightly lower than the 30 June 2007 peak of 47.8 per cent (see Chart 1 below).

Chart 1: Treasury staff by gender 2001 – 2012



As at 30 June 2012, seven staff identified as being Indigenous (0.7 per cent of the workforce). This compares with six staff members identifying as Indigenous in 2010-11. The Treasury has continued to support Indigenous employment in 2011-12 through the Indigenous Pathways program managed by the APSC. The Treasury employed four Indigenous Cadets in 2011-12.

In the *Treasury Workplace Agreement 2011-14*, the department maintained its commitment to a range of family-friendly working arrangements, such as access to information about child care and school holiday care through the intranet and an external service provider, access to a carer's room, and accreditation as a breastfeeding-friendly workplace.

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007-08, reporting on the employer role was transferred to the APSC's State of the Service Report and the APS statistical bulletin. These reports are available on the Australian Public Service Commission website at www.apsc.gov.au.

The Treasury has continued to provide access to adaptive technologies and other practical support for staff with a disability. This included the voice-activated software made available for two staff, regular provision of an interpreter through the Deaf Society of NSW for an employee with a hearing impairment, and arrangements for four sit-stand work stations to enable effective working arrangements. In addition, the Treasury employed a trainee under its Disability Work Experience Program. These and other activities to assist employees with a disability are provided for under the Treasury's Disability Action Plan.

Table 8: Appointments of women to boards or equivalent of statutory and non-statutory bodies (as at 30 June 2012)

	Total positions filled as at 30 June	Number of women	Number of appointments made during the year	Number of appointments of women
Auditing and Assurance Standards Board	1	1	–	–
Australian Accounting Standards Board	1	–	–	–
Australian Competition and Consumer Commission	11	4	2	1
Australian Competition Tribunal	13	1	4	–
Australian Energy Regulator	3	1	–	–
Australian Government Financial Literacy Board	13	3	1	–
Australian Prudential Regulation Authority	3	–	–	–
Australian Reinsurance Pool Corporation	6	3	–	–
Australian Securities and Investments Commission	5	1	3	–
Australian Statistics Advisory Council	22	5	7	2
Australian Taxation Office	4	1	–	–
Board of Taxation	10	3	2	1
Commonwealth Consumer Affairs Advisory Council	9	4	6	2
Commonwealth Grants Commission	6	2	4	2
Companies Auditors and Liquidators Disciplinary Board	10	–	–	–
Corporations and Markets Advisory Committee	12	5	–	–
Energy Security Council	8	1	8	1
Financial Reporting Council	17	5	3	1
Financial Reporting Panel	8	1	8	1
Financial Sector Advisory Council	12	2	9	1
Foreign Investment Review Board	3	1	1	–
HIH Claims Support Limited	4	–	–	–
Inspector-General of Taxation	1	–	–	–
Legal Committee of Corporations and Markets Advisory Committee	10	5	3	1
National Competition Council	4	1	1	–
National Housing Supply Council	12	6	4	2
Payments System Board	7	1	1	–
Productivity Commission	11	5	1	–
Reserve Bank of Australia	9	3	3	1
Superannuation Advisory Committee	13	4	–	–
Superannuation Complaints Tribunal	26	11	24	10

Table 8: Appointments of women to boards or equivalent of statutory and non-statutory bodies (as at 30 June 2012) (continued)

	Total positions filled as at 30 June	Number of women	Number of appointments made during the year	Number of appointments of women
Takeovers Panel	52	16	14	4
Tax Practitioners Board	9	2	–	–
Total	335	98	109	30

PART **FOUR**

FINANCIAL STATEMENTS

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of the Treasury for the year ended 30 June 2012, which comprise: a Statement by the Departmental Secretary and Chief Finance Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Contingencies; Schedule of Administered Comprehensive Income; Schedule of Administered Assets and Liabilities; Administered Reconciliation Schedule; Schedule of Administered Cash Flows; Schedule of Administered Commitments; Schedule of Administered Contingencies; and Notes comprising a summary of significant accounting policies and other explanatory information.

Secretary's Responsibility for the Financial Statements

The Secretary of the Department of the Treasury is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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Phone (02) 6203 7300 Fax (02) 6203 7777

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

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Department of the Treasury:

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997,* including the Australian Accounting Standards; and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Department of the Treasury's financial position as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

Note 29 *Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund* discloses information on the Department of the Treasury's review of its exposure to risks of not complying with statutory conditions on payments from special appropriations and special accounts. Non-compliance with statutory conditions may lead to a contravention of section 83 of the Constitution, which requires that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

As disclosed in Note 29, three groups of payments were made in 2011-12 potentially in breach of section 83 of the Constitution, totalling $4,320,123, in respect of which the Department of the Treasury is seeking legal advice as at the date of this report.

Australian National Audit Office

Ian McPhee
Auditor-General

Canberra

11 October 2012

THE TREASURY

Statement by the Departmental Secretary and Chief Finance Officer

Certification of financial statements

In our opinion, the attached financial statements for the year ended 30 June 2012 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

Martin Parkinson

Secretary to the Treasury

Matthew King

Chief Finance Officer

Statement of comprehensive income

for the period ended 30 June 2012

	Notes	2012 $'000	2011 $'000
EXPENSES			
Employee benefits	3A	**135,386**	119,553
Supplier expenses	3B	**39,663**	42,958
Grants	3C	**4,109**	3,077
Depreciation and amortisation	3D	**13,418**	12,015
Finance costs	3E	**17**	56
Write-down and impairment of assets	3F	**245**	108
TOTAL EXPENSES		**192,838**	177,767
LESS:			
OWN-SOURCE INCOME			
Own-source revenue			
Sale of goods and rendering of services	4A	**8,333**	8,623
Other revenues	4B	**868**	726
Total own-source revenue		**9,201**	9,349
Gains			
Sale of assets	4C	**4**	22
Other gains	4D	**526**	549
Total gains		**530**	571
TOTAL OWN-SOURCE INCOME		**9,731**	9,920
Net cost of services		**183,107**	167,847
Revenue from Government	4E	**158,119**	158,268
Surplus / (Deficit) attributable to the Australian Government		**(24,988)**	(9,579)
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserves		**(60)**	-
Total other comprehensive income		**(60)**	-
TOTAL COMPREHENSIVE INCOME / (LOSS) ATTRIBUTABLE TO THE AUSTRALIAN GOVERNMENT		**(25,048)**	(9,579)

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

Balance sheet

as at 30 June 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	**1,108**	836
Trade and other receivables	5B	**55,141**	78,211
Total financial assets		**56,249**	79,047
Non-Financial Assets			
Land and buildings	6A	**7,028**	7,878
Plant and equipment	6B	**12,927**	8,395
Intangibles	6C	**25,711**	31,117
Other non-financial assets	6D	**2,502**	2,336
Total non-financial assets		**48,168**	49,726
TOTAL ASSETS		**104,417**	128,773
LIABILITIES			
Payables			
Suppliers	7A	**311**	3,204
Other payables	7B	**7,278**	8,193
Total payables		**7,589**	11,397
Provisions			
Employee provisions	8A	**41,876**	38,714
Total provisions		**41,876**	38,714
TOTAL LIABILITIES		**49,465**	50,111
NET ASSETS		**54,952**	78,662
EQUITY			
Asset revaluation reserve		**5,186**	5,246
Contributed equity		**47,959**	46,621
Retained surplus		**1,807**	26,795
TOTAL EQUITY		**54,952**	78,662

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

Statement of changes in equity

for the period ended 30 June 2012

	Retained earnings		Asset revaluation reserves		Contributed equity		Total equity	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance as at 1 July	**26,795**	36,374	**5,246**	5,246	**46,621**	38,764	**78,662**	80,384
Comprehensive income								
Other comprehensive income	**-**	-	**(60)**	-	**-**	-	**(60)**	-
Surplus (Deficit) for the period	**(24,988)**	(9,579)	**-**	-	**-**	-	**(24,988)**	(9,579)
Total comprehensive income	**(24,988)**	(9,579)	**(60)**	-	**-**	-	**(25,048)**	(9,579)
of which:								
Attributable to the Australian Government	**(24,988)**	(9,579)	**(60)**	-	**-**	-	**(25,048)**	(9,579)
Transactions with owners								
Distribution to owners								
Return of capital:								
Other — prior year appropriation returned	**-**	-	**-**	-	**(5,730)**	-	**(5,730)**	-
Contributions by owners								
Equity injection appropriation	**-**	-	**-**	-	**583**	1,395	**583**	1,395
Departmental capital budget appropriation	**-**	-	**-**	-	**6,485**	6,462	**6,485**	6,462
Total transactions with owners	**-**	-	**-**	-	**1,338**	7,857	**1,338**	7,857
Closing balance as at 30 June	**1,807**	26,795	**5,186**	5,246	**47,959**	46,621	**54,952**	78,662
Closing balance attributable to the Australian Government	**1,807**	26,795	**5,186**	5,246	**47,959**	46,621	**54,952**	78,662

This statement should be read in conjunction with the accompanying notes
The Treasury returned $5.73m in unspent prior year appropriation in 2011-12. The amount related to funding for the Standard Business Reporting software development and the wind up of the Financial Reporting Panel. This figure is also disclosed in Note 28A.

Cash flow statement

for the period ended 30 June 2012

	Notes	2012 $'000	2011 $'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		**188,594**	171,132
Goods and services		**12,195**	9,302
Net GST received from ATO		**2,982**	3,637
Other		**1,301**	947
Total cash received		**205,072**	185,018
Cash used			
Employees		**132,955**	120,220
Suppliers		**48,098**	49,386
Grants		**4,109**	3,077
Financing costs		**17**	56
Section 31 receipts transferred to OPA		**14,149**	12,617
Other		**2**	4
Total cash used		**199,330**	185,360
Net cash from (used by) operating activities	10	**5,742**	(342)
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of plant and equipment		**9**	22
Total cash received		**9**	22
Cash used			
Purchase of land and buildings		**26**	-
Purchase of plant and equipment		**11,431**	3,270
Purchase of intangibles		**1,329**	4,348
Total cash used		**12,786**	7,618
Net cash from (used by) investing activities		**(12,777)**	(7,596)
FINANCING ACTIVITIES			
Cash received			
Contributed equity — departmental capital budget		**6,724**	6,223
Contributed equity — equity injections		**583**	1,395
Total cash received		**7,307**	7,618
Cash used			
Repayment of borrowings		**-**	40
Total cash used		**-**	40
Net cash from (used by) financing activities		**7,307**	7,578
Net increase (decrease) in cash held		**272**	(360)
Cash at the beginning of the reporting period		**836**	1,196
Cash at the end of the reporting period	5A	**1,108**	836

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

Schedule of commitments

as at 30 June 2012

	2012 $'000	2011 $'000
BY TYPE		
Commitments payable		
Capital commitments		
Land and buildings[1]	**1,057**	-
Plant and equipment[2]	**588**	-
Intangibles[3]	**108**	1,905
Total capital commitments	**1,753**	1,905
Other commitments		
Operating leases[4]	**29,489**	36,186
Other[5]	**11,859**	7,428
Total other commitments	**41,348**	43,614
Total commitments payable	**43,101**	45,519
Commitments receivable		
GST receivable[6]	**(3,700)**	(4,038)
Total commitments receivable	**(3,700)**	(4,038)
NET COMMITMENTS BY TYPE	**39,401**	41,481
BY MATURITY		
Commitments payable		
Capital commitments		
One year or less	**1,744**	1,893
From one to five years	**9**	12
Total capital commitments	**1,753**	1,905
Operating lease commitments		
One year or less	**8,528**	8,267
From one to five years	**20,961**	27,919
Total operating lease commitments	**29,489**	36,186
Other commitments		
One year or less	**8,359**	4,559
From one to five years	**3,500**	2,869
Total other commitments	**11,859**	7,428
Total commitments payable	**43,101**	45,519
Commitments receivable		
One year or less	**(1,585)**	(1,276)
From one to five years	**(2,115)**	(2,762)
Total commitments receivable	**(3,700)**	(4,038)
NET COMMITMENTS BY MATURITY	**39,401**	41,481

1. Land and buildings commitments relate to ongoing capital works.
2. Plant and equipment commitments primarily relate to office equipment and computers.
3. Intangible commitments relate to developed software.
4. Operating lease commitments relate to leases for office accommodation.
5. Other commitments primarily relate to contracts for operational expenses and consultants.
6. Commitments are GST inclusive where relevant.

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

Schedule of commitments (continued)

as at 30 June 2012

Operating leases included are effectively non-cancellable and comprise of:

Nature of lease	General description of leasing arrangement
Leases for accommodation	▪ Commercial — leases comprise of various periods, including both initial and options periods. ▪ Overseas estate — some commercial lease payments are adjusted annually by two per cent and residential lease payments are reviewed bi-annually to reflect market movements. ▪ The initial periods of office accommodation leases are still current and each may be renewed with options for a further three or five years.
Agreements for the provision of motor vehicles to Senior Executive Officers	▪ No contingent rentals exist. ▪ No renewal or purchase options are available to the Treasury.
Leases for computer equipment and office equipment	▪ The lessor provides all computer equipment designated as necessary in the supply contract for three years with an option to extend the term for a fixed period as agreed by both parties. ▪ The lessor provides all photocopier equipment designated as necessary in the supply contract for four years with an option to extend the term for a fixed period as agreed by both parties.

Schedule of contingencies

as at 30 June 2012

	2012 $'000	2011 $'000
Contingent liabilities		
Studies Assistance	**297**	300
Total contingent liabilities	**297**	300
NET CONTINGENT LIABILITIES	**(297)**	(300)

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

Note: Departmental quantifiable and unquantifiable contingencies are disclosed in Note 11: Contingent liabilities and assets.

Schedule of administered comprehensive income

for the period ended 30 June 2012

	Notes	2012 $'000	2011 $'000
EXPENSES			
Grants	16A	**86,845,786**	86,935,637
Interest	16B	**11,289**	18,734
Other	16C	**11,388**	6,765
Total expenses administered on behalf of government		**86,868,463**	86,961,136
LESS:			
OWN-SOURCE INCOME			
Own-source revenue			
Non-taxation revenue			
Interest	17A	**4,039**	3,840
Dividends	17B	**900,000**	-
Sale of goods and rendering of services	17C	**1,588,520**	1,879,543
COAG revenue from government agencies	17D	**3,230,916**	1,351,057
Other	17E	**28,767**	72,269
Total non-taxation revenue		**5,752,242**	3,306,709
Total own-source revenue administered on behalf of government		**5,752,242**	3,306,709
Gains			
Foreign exchange	17F	**5,894**	338,219
Other	17G	**-**	-
Total gains		**5,894**	338,219
Total own-source income administered on behalf of government		**5,758,136**	3,644,928
Net cost of (contribution by) services		**81,110,327**	83,316,208
Surplus (Deficit)		**(81,110,327)**	(83,316,208)
OTHER COMPREHENSIVE INCOME			
Administered revaluations taken to/from reserves		**713,548**	(4,993,614)
Total comprehensive income		**713,548**	(4,993,614)
Total comprehensive income (loss)		**(80,396,779)**	(88,309,822)

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

Schedule of administered assets and liabilities

as at 30 June 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Financial Assets			
Cash and cash equivalents	18A	**1,735**	4,763
Trade and other receivables	18B	**2,989,864**	2,922,847
Investments	18C|D	**12,165,485**	11,383,633
Total financial assets		**15,157,084**	14,311,243
Non-Financial Assets			
Other	19A	**88,260**	14,791
Total non-financial assets		**88,260**	14,791
Total assets administered on behalf of Government		**15,245,344**	14,326,034
LIABILITIES			
Payables			
Grants	20A	**473,356**	884,081
Other payables	20B	**4,571,394**	4,589,348
Unearned income	20C	**1,330,104**	2,127,855
Total payables		**6,374,854**	7,601,284
Interest bearing liabilities			
Loans	21A	**3,259,907**	3,851,036
Total interest bearing liabilities		**3,259,907**	3,851,036
Provisions			
Other provisions	22A	**3,955,066**	4,596,860
Total provisions		**3,955,066**	4,596,860
Total liabilities administered on behalf of government		**13,589,827**	16,049,180
Net assets/(liabilities)		**1,655,517**	(1,723,146)

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

Administered reconciliation schedule

for the period ended 30 June 2012

	2012 $'000	2011 $'000
Opening administered assets less administered liabilities as at 1 July	**(1,723,146)**	7,885,440
Surplus (deficit) items		
Plus: Administered income	**5,758,136**	3,644,928
Less: Administered expenses (non CAC)	**(86,868,463)**	(86,961,136)
Other comprehensive income		
Administered revaluations taken to/(from) reserves	**713,548**	(4,993,614)
Administered transfers to/(from) Australian Government:		
Appropriation transfers from OPA:		
Annual appropriation for administered expenses (non CAC)	**12,748**	14,880
Administered assets and liabilities appropriations	**15,561**	4,079
Special appropriations (limited)	**14,812**	18,687
Special appropriations (unlimited)	**66,448,615**	64,058,585
Special accounts — COAG Reform Fund	**21,474,821**	18,402,547
Refunds of receipts (s28 FMA)	**-**	-
Transfers to OPA	**(4,191,115)**	(3,797,542)
Restructuring	**-**	-
Closing administered assets less administered liabilities as at 30 June	**1,655,517**	(1,723,146)

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

Schedule of administered cash flows

for the period ended 30 June 2012

	Notes	2012 $'000	2011 $'000
OPERATING ACTIVITIES			
Cash received			
Sale of goods and rendering of services		**930,357**	1,238,387
Interest		**4,580**	3,144
Dividends		**-**	750,000
Net GST received		**1,352**	3
HIH Group liquidation proceeds		**23,479**	62,244
COAG receipts from government agencies		**11,584,682**	10,990,758
Other		**4,853**	4,590
Total cash received		**12,549,303**	13,049,126
Cash used			
Grant payments		**95,518,128**	91,552,618
Interest		**14,273**	16,965
Other		**17,412**	23,166
Total cash used		**95,549,813**	91,592,749
Net cash from (used by) operating activities	23	**(83,000,510)**	(78,543,623)
INVESTING ACTIVITIES			
Cash received			
IMF		**58**	401,962
Total cash received		**58**	401,962
Cash used			
Settlement of IMF obligations		**736,184**	315,051
Settlement of international financial institution's obligations		**26,984**	243,824
Settlement of Loans to States and Territories		**14,850**	-
Total cash used		**778,018**	558,875
Net cash from (used by) investing activities		**(777,960)**	(156,913)
Net increase (decrease) in cash held		**(83,778,470)**	(78,700,536)
CASH TO/(FROM) OFFICIAL PUBLIC ACCOUNT			
Cash and cash equivalents at the beginning of the reporting period		**4,763**	4,063
Cash from Official Public Account for:			
- Appropriations		**66,491,736**	64,096,231
- Special accounts		**21,474,821**	18,402,547
		87,966,557	82,498,778
Cash to Official Public Account for:			
- Appropriations		**4,191,115**	2,468,045
- Special accounts		**-**	1,329,497
		4,191,115	3,797,542
Total cash to/(from) Official Public Account		**83,780,205**	78,705,299
Cash and cash equivalents at the end of the reporting period	18A	**1,735**	4,763

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

Schedule of administered commitments

as at 30 June 2012

	2012 $'000	2011 $'000
BY TYPE		
Commitments payable		
Capital commitments		
Investments	**103,293**	147,193
Total capital commitments	**103,293**	147,193
Commitments receivable		
GST receivable	**(51)**	(72)
Total commitments receivable	**(51)**	(72)
Net commitments by type	**103,242**	147,121
BY MATURITY		
Commitments payable		
Capital commitments		
One year or less	**18,064**	36,798
From one to five years	**85,229**	110,395
Total capital commitments	**103,293**	147,193
Commitments receivable		
One year of less	**(51)**	(72)
Total commitments receivable	**(51)**	(72)
Net commitments by maturity	**103,242**	147,121

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

Notes:

a) All commitments are GST inclusive where relevant

b) In 2012 the Treasury received an exemption from the Finance Minister related to the commitments for grants payable to the States and Territories (for the current and comparative years). The budgeted information for payment of grants to States and Territories can be found in Budget Paper 3. Refer to Note 1.26 for more information.

Schedule of administered contingencies

as at 30 June 2012

	2012 $'000	2011 $'000
Total administered contingent assets	**-**	-
Administered contingent liabilities		
Uncalled shares or capital subscriptions[1]	**10,144,409**	9,600,802
Total administered contingent liabilities	**10,144,409**	9,600,802
NET ADMINISTERED CONTINGENT ASSETS (LIABILITIES)	**10,144,409**	9,600,802

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

Note: Administered unquantifiable contingencies are disclosed in Note 24: Administered contingent liabilities and assets. The Treasury has given financial guarantees for which the details are disclosed at Note 1.31 and Note 26: Administered financial instruments.

1 Comprises uncalled shares or capital subscriptions in the European Bank for Reconstruction and Development (EBRD), the International Bank for Reconstruction and Development (IBRD), the Multilateral Investment Guarantee Agency (MIGA) and the Asian Development Bank (ADB). See Note 1.3 for further details.

Notes to and forming part of the financial statements

for the period ended 30 June 2012

Note 1: Summary of significant accounting policies

1.1 Objectives of the Treasury

The Treasury is an Australian Government controlled, not for profit entity.

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

The Treasury is structured to meet one outcome:

> Outcome 1: Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.

The reporting entity, hereafter referred to as 'the Treasury', comprises the Treasury and the Australian Government Actuary.

Activities contributing towards the outcome detailed above are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by the Treasury in its own right. Administered activities involve the management or oversight by the Treasury, on behalf of the Government, of items controlled or incurred by the Government.

Departmental activities are identified under Program 1.1. Administered activities are identified under Programs 1.1 to 1.10 listed below:

- Program 1.1 — Department of the Treasury
- Program 1.2 — Payments to International Financial Institutions
- Program 1.3 — Support for Markets and Business
- Program 1.4 — General Revenue Assistance
- Program 1.5 — Assistance to the States for Healthcare Services
- Program 1.6 — Assistance to the States for Schools
- Program 1.7 — Assistance to the States for Skills and Workforce Development
- Program 1.8 — Assistance to the States for Disability Services
- Program 1.9 — Assistance to the States for Affordable Housing
- Program 1.10 — National Partnership Payments to the States

Program 1.2 provides for administered payments to International Financial Institutions as required to:

- promote international monetary cooperation, exchange stability and orderly exchange arrangements;
- strengthen the international financial system; and
- support development objectives through the multilateral development banks.

Program 1.3 provides for administered activities in respect of:

- insurance claims arising from the residual Housing Loans Insurance Corporation (HLIC) portfolio;
- assistance under the HIH Claims Support Scheme (HCSS);
- the Guarantee of State and Territory Borrowing in assisting state and territory governments to access funding;
- the Guarantee Scheme for Large Deposits and Wholesale Funding to promote financial system stability in Australia; and
- developing the Centre for International Finance and Regulation.

Program 1.4 provides for administered payments of general revenue assistance to the States and Territories, including payments of revenue received from the GST.

Programs 1.5 to 1.9 provide for administered payments to the States and Territories for healthcare services, schools services, skills and workforce development services, disability services and affordable housing services; according to the payment arrangements specified in the *Intergovernmental Agreement on Federal Financial Relations*.

Program 1.10 provides for administered payments to the States and Territories, according to National Partnership agreements, providing financial support for the States and Territories to be spent on improving outcomes in the areas specified.

The continued existence of the Treasury in its present form and with its present programs is dependent on government policy and on continuing appropriations by Parliament for the Treasury's policy advice, administration and programs.

1.2 Basis of preparation of the financial statements

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are general purpose financial statements.

The Financial Statements and notes have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the balance sheet when and only when it is probable that future economic benefits will flow to the Treasury or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under executory contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the schedule of commitments or the schedule of contingencies.

Unless alternative treatment is specifically required by an accounting standard or the FMOs, income and expenses are recognised in the statement of comprehensive income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

Administered revenues, expenses, assets, liabilities and cash flows reported in the Schedule of Administered Items and related notes are accounted for on the same basis and using the same policies as for departmental items, except where otherwise stated at Note 1.22.

1.3 Significant accounting judgements and estimates

In the process of applying the accounting policies listed in this note, the Treasury has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- the employee provision is based on the actuarial assessment determined by the Australian Government Actuary (AGA);
- the fair value of land and buildings has been taken to be the market value of similar properties or depreciated replacement value as determined by an independent valuer;
- the valuation of the HCSS liability is based on an independent actuarial assessment by the AGA;
- uncalled shares disclosed in the administered contingencies table, the Treasury has judged the risk of these shares being called as low for the foreseeable future. This judgment is based on historic and current performance of the international financial institutions. Some of the factors considered are the financial strength of the development banks (that is, most have AAA credit ratings), established risk management policies, healthy debt ratios and no adverse financial statement audit opinions; and

- the NDRRA liability represents the Treasury's best estimate of payments expected to be made to States and Territories as at balance date under NDRRA and is based on information provided by States and Territories to the Attorney General's Department, the Commonwealth agency responsible for the administration of disaster relief. The estimates provided by States and Territories are based on their assessment of the costs expected to be incurred that would be eligible for assistance under NDRRA for disasters occurring prior to 1 July 2012. Given the nature of disasters and uncertainty around the costs and timing of the reconstruction effort, the liability may require adjustment in future reporting periods.

1.4 Changes in Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. None of the new standards, amendments to standards and interpretations issued by the AASB that are applicable to the current period have had a material financial impact on the Treasury. The following standards or amendments to standards have become effective but have had no financial impact to the operations of the Treasury.

Standards

- *AASB 1 — First-time Adoption of Australian Accounting Standards (Compilation)*
- *AASB 3 — Business Combinations (Compilation)*
- *AASB 4 — Insurance Contracts (Compilation)*
- *AASB 5 — Non-current Assets Held for Sale and Discontinued Operations (Compilation)*
- *AASB 7 — Financial Instruments: Disclosures (Compilation)*
- *AASB 8 — Operating Segments (Compilation)*
- *AASB101 — Presentation of Financial Statements (Compilation)*
- *AASB107 — Statement of Cash Flows (Compilation)*
- *AASB 108 — Accounting Policies, Changes in Accounting Estimates and Errors (Compilation)*
- *AASB 110 — Events after the Reporting Period (Compilation)*
- *AASB 112 — Income Taxes (Compilation)*
- *AASB 118 — Revenue (Compilation)*
- *AASB 119 — Employee Benefits (Compilation)*
- *AASB 121 — The Effects of Changes in Foreign Exchange Rates (Compilation)*
- *AASB 124 — Related Party Disclosures (Principal)*
- *AASB 127 — Consolidated and Separate Financial Statements (Compilation)*
- *AASB 128 — Investments in Associates (Compilation)*

- *AASB 131 — Interests in Joint Ventures (Compilation)*
- *AASB 132 — Financial Instruments: Presentation (Compilation)*
- *AASB 133 — Earnings per Share (Compilation)*
- *AASB 134 — Interim Financial Reporting (Compilation)*
- *AASB 137 — Provisions, Contingent Liabilities and Contingent Assets (Compilation)*
- *AASB 139 — Financial Instruments: Recognition and Measurement (Compilation)*
- *AASB 140 — Investment Property (Compilation)*
- *AASB 1023 — General Insurance Contracts (Compilation)*
- *AASB 1031 — Materiality (Compilation)*
- *AASB 1038 — Life Insurance Contracts (Compilation)*
- *AASB 1054 — Australian Additional Disclosures (Principal)*
- *Interp. 2 — Members' Shares in Co-operative Entities and Similar Instruments (Compilation)*
- *Interp. 4 — Determining whether an Arrangement contains a Lease (Compilation)*
- *Interp. 13 — Customer Loyalty Programmes (Compilation)*
- *Interp. 14 — AASB 119 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Compilation)*
- *Interp. 16 — Hedges of a Net Investment in a Foreign Operation (Compilation)*
- *Interp. 112 — Consolidation — Special Purpose Entities (Compilation)*
- *Interp. 113 — Jointly Controlled Entities — Non-Monetary Contributions by Venturers (Compilation)*
- *Interp. 115 — Operating Leases — Incentives (Compilation)*
- *Interp. 127 — Evaluating the Substance of Transactions Involving the Legal Form of a Lease (Compilation)*
- *Interp. 132 — Intangible Assets — Web Site Costs (Compilation)*
- *Interp. 1039 — Substantive Enactment of Major Tax Bills in Australia (Compilation)*
- *Interp. 1042 — Subscriber Acquisition Costs in the Telecommunications Industry (Compilation)*
- *Interp. 1052 — Tax Consolidation Accounting (Compilation)*

Future Australian Accounting Standard requirements

Of the new standards, amendments to standards and interpretations issued by the AASB that are applicable to future periods, it is estimated that the impact of adopting the pronouncements when effective will have no material financial impact on future reporting periods, but may affect disclosures in future financial reports.

1.5 Revenue

Revenue from Government

Amounts appropriated for departmental outputs for the year (adjusted for any formal additions and reductions) are recognised as revenue when the agency gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

Other types of revenue

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- the agency retains no managerial involvement or effective control over the goods;
- the revenue and transaction costs incurred for the transaction can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at balance date. Allowances are made when collectability of the debt is no longer probable.

1.6 Gains

Resources received free of charge

Resources received free of charge are recognised as gains when and only when fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another government agency or authority as a consequence of a restructuring of administrative arrangements (refer to Note 1.7).

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Sale of Assets

Gains from disposal of non-current assets are recognised when control of the asset has passed to the buyer.

1.7 Transactions with the Government as owner

Contributed equity

Amounts appropriated which are designated as 'equity injections' or from 1 July 2010, departmental capital budget appropriations (less any formal reductions) are recognised directly in contributed equity in that year. Equity injection appropriations in Acts passed after the commencement of the period are recognised from the date of royal assent.

Restructuring of administrative arrangements

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

Other distributions to owners

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

1.8 Employee benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for 'short-term employee benefits' (as defined by AASB 119 *Employee Benefits*) and termination benefits due within twelve months of balance date are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Other long-term employee benefits are measured as the total net present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of the plan's assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Treasury is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the Treasury's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for both annual and long service leave has been determined by reference to the work of the Australian Government Actuary (AGA) as at 30 June 2012. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and general pay increases.

Separation and redundancy

Provision is made for separation and redundancy benefit payments. The department recognises a provision for termination when it has a detailed formal plan for the terminations and has informed those employees affected that the terminations will be carried out.

No provision has been made for separation and redundancy benefit payments during the year. All payments for the voluntary redundancies offered by the Treasury in 2011-12 were paid before 30 June 2012.

Superannuation

Staff of the Treasury are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) or other defined contribution schemes.

The CSS and PSS are defined benefit schemes of the Australian Government. The PSSap is a defined contribution scheme which opened for new employees on 1 July 2005.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance and Deregulation as an administered item.

The Treasury makes employer contributions to the employee superannuation scheme at rates determined by an actuary to be sufficient to meet the cost to the government of the superannuation entitlements of the Treasury's employees. The Treasury accounts for the contribution as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June 2012 represents outstanding contributions for the final fortnight of the year.

1.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer substantially all the risks and benefits incidental to ownership of leased non-current assets from the lessor to the lessee. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the leased property or, if lower, the present value of minimum lease payments at the inception of the contract. A liability is recognised at the same time and for the same amount.

The Treasury does not currently hold any assets under finance lease.

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

1.10 Borrowing costs

All borrowing costs are expensed as incurred.

1.11 Cash

Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount. Any interest receivable is credited to revenue as it accrues. The Treasury maintains bank accounts with the Reserve Bank of Australia for administration of the receipt and payment of monies.

1.12 Financial risk management

The Treasury's activities expose it to normal commercial financial risk. As a result of the nature of the Treasury's business and internal and Australian Government policies dealing with the management of financial risk, the Treasury's exposure to market, credit, liquidity, cash flow and fair value interest rate risk is considered to be low.

1.13 Other financial instruments

The Treasury classifies its financial instruments in the following categories:

- financial instruments at fair value through profit or loss;
- held-to-maturity investments;
- available-for-sale financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition. Financial instruments are recognised and derecognised upon trade date.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance date. These are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest methods less impairment. Interest is usually recognised by applying the effective interest rate. Collectability of debts is reviewed regularly throughout the year and at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely. Credit terms are net 30 days (2011: 30 days).

Other financial liabilities

Other financial liabilities include trade creditors and accruals are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Settlement is usually made net 30 days.

1.14 Impairment of financial assets

Financial assets are assessed for impairment at the end of each reporting period. No indicators of impairment were identified for assets as at 30 June 2012.

Financial assets held at amortised cost

If there is objective evidence that an impairment loss has been incurred for loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the statement of comprehensive income.

Available for sale financial assets

If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in expenses, is transferred from equity to the statement of comprehensive income.

Financial assets held at cost

If there is objective evidence that an impairment loss has been incurred the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

1.15 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the balance sheet but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are reported when settlement is probable but not virtually certain and contingent liabilities are recognised when the probability of settlement is greater than remote.

1.16 Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

1.17 Property, plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the balance sheet, except for purchases costing less than $2,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant and total $20,000 or more).

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

Revaluations

Fair values for each class of asset are determined as shown below.

Asset class	Fair value measured at
Buildings — leasehold improvements	Depreciated replacement cost
Plant and equipment	Market selling price

Following initial recognition at cost, buildings — leasehold improvements and plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same class that was previously recognised through profit and loss. Revaluation decrements for a class of assets are recognised through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset is restated to the revalued amount.

All assets classified under buildings — leasehold improvements and plant and equipment were formally valued as at 1 July 2011 by Preston Rowe Paterson NSW Ltd.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Treasury using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2012	2011
Buildings — leasehold improvements	5-10 years	5-10 years
Plant and equipment:		
Computers, plant and equipment	3-10 years	3-10 years
Motor vehicles	4 years	4 years
Office equipment	5 years	5 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 3D.

Impairment

All assets were assessed for impairment at 30 June 2012. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount. No indicators of impairment were found for departmental assets as at 30 June 2012 (2011: nil).

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the Treasury were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

1.18 Intangibles

The Treasury's intangible assets comprise internally developed and purchased software for internal use. These assets are carried at cost less accumulated depreciation and any accumulated impairment losses. Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the Treasury's software are 3 to 5 years (2011: 3 to 5 years).

The Treasury's largest intangible asset is the Standard Business Reporting (SBR). SBR is a multi-agency initiative that will simplify business-to-government reporting by introducing a single secure way to interact on-line with participating agencies. For further information visit www.sbr.gov.au.

All software assets were assessed for indications of impairment as at 30 June 2012. No indicators of impairment were identified as at 30 June 2012 (2011: nil).

1.19 Taxation/competitive neutrality

The Treasury is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recovered from the Australian Taxation Office; and
- except for receivables and payables.

1.20 Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date.

1.21 Insurance

The Treasury is insured for risks through the government's insurable risk managed fund, Comcover. Workers compensation is insured through the government's insurable risk managed fund, Comcare Australia.

1.22 Reporting of administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the schedule of administered items and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

1.23 Administered cash transfers to and from the Official Public Account

Revenue collected by the Treasury for use by the Australian Government rather than the Treasury is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Deregulation. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriations on behalf of the Australian Government. These transfers to and from the OPA are adjustments to administered cash held by the Treasury on behalf of the Australian Government and reported as such in the administered reconciliation schedule. The schedule of administered items largely reflects the Australian Government's transactions, through the Treasury, with parties outside the Australian Government.

1.24 Administered revenue

All administered revenues relate to the course of ordinary activities performed by the Treasury on behalf of the Australian Government.

Reserve Bank of Australia dividend

The Treasurer is able to determine what portion of the RBA's earnings is made available as a dividend to the Commonwealth having regard to the Reserve Bank Board's advice and in accordance with section 30 of the *Reserve Bank Act 1959*.

Prior to 2011-12, the RBA's dividend for a particular financial year was recognised in the Treasury's administered financial statements in the year the Treasurer made the determination.

As a result of issues raised by the ANAO, the Treasury now recognises the dividend revenue and a corresponding receivable in the year the RBA reports a net profit available to the Commonwealth, subject to reliable measurement. The change does not affect the timing of the dividend receipt in the Cash Flow Statement, only the timing of the accrued revenue in the Statement of Comprehensive Income. Dividends are measured at nominal amounts.

Australian Reinsurance Pool Corporation dividend

The dividend from the Australian Reinsurance Pool Corporation (ARPC) is recognised when the Minister for Financial Services and Superannuation signs the legislative instrument, and thus control of the income stream is established. On this basis, the declared dividend of $400 million for ARPC has been recognised in the financial statements for 2011-12 (2010-11: Nil).

The legislative instrument requires payment over four years, commencing in 2012-13. Further details can be found in the legislative instrument http://www.comlaw.gov.au/Details/F2012L01542

International Monetary Fund remuneration

Remuneration is interest paid by the International Monetary Fund (IMF) to Australia for the use of its funds. It is paid on the proportion of Australia's IMF capital subscription (quota) that was paid in Special Drawing Rights (SDR), and on the money lent by Australia under the IMF's Financial Transaction Plan, under which members in a strong external position provide quota resources to support IMF lending to borrowing member countries.

Where the IMF's holdings of Australian dollars fall below a specified level, it pays remuneration on Australia's average remunerated reserve tranche position. The rate of remuneration is equal to the SDR interest rate. This rate is then adjusted to account for the financial consequences of overdue obligations to the IMF which are shared between members and reflected in Note 18 as 'burden sharing'.

Remuneration is calculated and paid at the end of the IMF's financial quarters. An annual maintenance of value adjustment is made to the IMF's holdings of Australia's quota paid in Australian dollars to maintain their value in terms of the SDR.

Australia also receives interest on amounts lent to the IMF under the New Arrangements to Borrow (NAB). Interest on the NAB is paid quarterly. The NAB provides supplementary resources to the IMF.

Guarantee Scheme for Large Deposits and Wholesale Funding

Under the Guarantee Scheme for Large Deposits and Wholesale Funding, a fee is paid to guarantee the portion of eligible deposits over $1 million and for wholesale funding issuances.

The fees are reported as a fee for service in accordance with AASB 118 *Revenue*. The Guarantee Scheme closed to new deposits on 31 March 2010.

The Guarantee of State and Territory Borrowing

Under the Guarantee of State and Territory Borrowing, a fee is paid to provide the guarantee over new and nominated existing State and Territory securities. The fees are reported as a fee for service in accordance with AASB 118 *Revenue*. The guarantee closed to new issuances of guaranteed liabilities on 31 December 2010.

Financial Guarantee Contracts

Financial guarantee contracts are accounted for in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. They are not treated as contingent liabilities, as they are regarded as financial instruments outside the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. The Treasury's administered financial guarantee contracts relate to components of the Guarantee Scheme for Large Deposits and Wholesale Funding and the Guarantee of State and Territory Borrowing.

1.25 Administered capital

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

1.26 Grants

The Treasury sought and received an exemption from reporting payments to the States and Territories as administered commitments as required by section 81 of the FMOs. The Treasury formed the view that these payments do not meet the definition of a commitment and should not be reported in the administered commitments schedule.

In consultation with the Department of Finance and Deregulation (Finance) and the Australian National Audit Office (ANAO), it was agreed that the issue has a whole of government context that needed to be considered. To allow time for Finance to develop a whole of government position it was agreed that the Treasury should seek an exemption.

In 2010-11, the Treasury reviewed the accounting treatment of payments made to States and Territories under the Natural Disaster Relief and Recovery Arrangements (NDRRA) in consultation with Finance. The accounting treatment previously applied by the Treasury was to recognise grant liabilities under NDRRA to the extent that (i) the services required to be performed by the State or Territory had been performed or (ii) the grant eligibility criteria had been satisfied, but payments due have not been made. The change in accounting treatment resulted in the Treasury recognising a liability equal to the discounted value of estimated future payments to States and Territories under NDRRA regardless of whether or not a State or Territory has completed eligible disaster reconstruction work or submitted an eligible claim under the NDRRA. As disclosed in Note 1.3, States and Territories were requested to provide an estimate of costs expected to be incurred for disasters affecting States and Territories that occurred prior to 1 July 2012 which would be eligible for assistance.

The new accounting treatment provides readers of the financial statements with an estimate of the amount yet to be paid to States and Territories for eligible disaster assistance which was not provided under the earlier accounting treatment.

With the exception of the accounting treatment of payments to State and Territories under NDRRA detailed above, grant liabilities are recognised to the extent that (i) the services required to be performed by the grantee have been performed or (ii) the grant eligibility criteria have been satisfied, but payments due have not been made.

Grants to States and Territories

Under the federal financial relations framework, the Treasurer is responsible for payments to the States and Territories, including general revenue assistance (GST and other general revenue), National Specific Purpose Payments (National SPPs) and National Partnership (NP) payments. Portfolio Ministers are accountable for relevant government policies associated with the payment of NPs and other general revenue. An overview of these arrangements is available on the Standing Council for Federal Financial Relations’ website.

There are three main types of payments under the framework, as follows:

- General revenue assistance, including GST revenue payments — a financial contribution to a State or Territory which is available for use by the States and Territories for any purpose;
- National SPPs — a financial contribution to support a State or Territory to deliver services in a particular sector; and

- NP payments — a financial contribution in respect of a NP agreement to a State or Territory to support the delivery of specific projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements.

The National SPPs and GST are paid under a special appropriation from the *Federal Financial Relations Act 2009*. After the end of the financial year, the Treasurer determines the amounts that should have been paid and an adjustment is made in respect of advances that were paid during the financial year. The authority to approve advance payments has been delegated to the General Manager, Commonwealth-State Relations Division.

The NP and other general revenue assistance payments are paid under the *Federal Financial Relations Act 2009* through a determination process wherein the Treasurer may determine an amount to be paid to a State or Territory for the purpose of making a grant of financial assistance. Once determined, this amount must be credited to the COAG Reform Fund and the Treasurer must ensure that, as soon as practicable after the amount is credited, the COAG Reform Fund is debited for the purposes of making the grant. In addition, the Treasurer must have regard to the Intergovernmental Agreement on Federal Financial Relations. The Treasury advises the Treasurer on amounts to be determined, based on certified payment advices received from the Chief Financial Officers of Commonwealth agencies.

In 2010-11, several payments made under National Partnership agreements were discovered to have been made in error and were subsequently recovered at the next opportunity. In these circumstances the payments were made to the State or Territory without any legislative basis, which constitutes a breach of section 83 of the Constitution. The Treasury process to complete the 2011-12 financial statements identified no incorrect payments (2011: 8 incorrect payments totalling $25,963,775). All incorrect payments have been recovered from the States and Territories. Refer to Note 29 for further information.

Payments to the States and Territories through the Nation Building Funds

The *Nation-building Funds Act 2008* (the Funds Act) outlines the requirements for payments to be authorised from the three nation building funds (collectively known as 'the Funds'); the responsibilities of Ministers; and the process for channelling payments to recipients through portfolio special accounts.

The Funds were established to provide financing sources to meet the Government's commitment to Australia's future by investment in critical areas of infrastructure.

The three Funds are the:

- Building Australia Fund — make payments in relation to the creation or development of transport, communications, eligible national broadband network matters, energy and water infrastructure;
- Education Investment Fund — make payments in relation to the creation or development of higher education infrastructure, vocational education and training infrastructure, eligible education and research infrastructure; and

- Health and Hospitals Fund — make payments in relation to the creation or development of health infrastructure.

The Treasury receives funds from the relevant portfolio agency and pays the amount to the States and Territories. These amounts are recorded as 'COAG receipts from Government Agencies' to recognise the income and a corresponding grant expense for the payment to the States and Territories.

Mirror taxes collected by State Governments

On behalf of the States, the Australian Government imposes mirror taxes which replace State taxes in relation to Australian Government places that may be constitutionally invalid. Mirror taxes are collected and retained by the States, under the *Commonwealth Places (Mirror Taxes) Act 1998*. State Governments bear the administration costs of collecting mirror taxes. Mirror taxes are disclosed at Note 28D.

1.27 Administered investments

Development banks

Investments in development banks are classified as 'monetary — available for sale financial assets' refer Note 1.32. As such, the foreign currency value of investments is translated into Australian dollars (AUD) using relevant foreign currency exchange rates at balance date.

International Monetary Fund

The quota is the current value in Australian dollars of Australia's subscription to the IMF. Quota subscriptions represent a member's shareholding in the IMF and generate most of the IMF's financial resources. Twenty five per cent of the quota increase will be paid in SDR and the remainder will be paid through issuing AUD denominated non-negotiable, non-interest bearing promissory notes.

Australian Government entities

Administered investments in controlled entities are not consolidated because their consolidation is relevant only at the whole of government level.

The Australian Government's investment in controlled entities and companies in the Treasury portfolio are measured at their fair value as at 30 June 2012. Fair value has been taken to be the net assets of the entities as at balance date. These entities are listed below:

- Reserve Bank of Australia; and
- Australian Reinsurance Pool Corporation.

Impairment of administered investments

Administered investments were assessed for impairment at 30 June 2012. No indicators of impairment were identified (2011: nil).

1.28 Promissory notes

Promissory notes have been issued to the IMF, the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development, the Asian Development Bank and the Multilateral Investment Guarantee Agency.

Where promissory notes have been issued in foreign currencies, they are recorded at their nominal value by translating them at the spot rate at balance date. The promissory notes are non-interest bearing and relate to the undrawn paid-in capital subscriptions.

Foreign currency gains and losses are recognised where applicable.

1.29 IMF Special Drawing Rights Allocation

The SDR allocation liability reflects the current value in AUD of the Treasury's liability to repay to the IMF the cumulative allocations of SDRs provided to Australia since joining the IMF. This liability is classified as 'other payables' in Note 21.

1.30 Provisions and contingent liabilities

HIH Claims Support Scheme liability

The HIH Claims Support Scheme (the Scheme) was established by the Australian Government following the collapse of the HIH Group of companies in March 2001. The purpose of the Scheme is to provide financial assistance to eligible HIH policy-holders affected by the collapse of the group. Initial funding of $640 million was provided by special appropriation through the *Appropriation (HIH Assistance) Act 2001*.

HIH Claims Support Limited was established by the Insurance Council of Australia as a not-for-profit company in May 2001 to manage claims made under the Scheme and to operate the HIH Claims Support Trust on behalf of the Australian Government. As the sole beneficiary of the trust the Australian Government is entitled to any residual balance of the trust.

Since 2001, a total of 10,900 claims have been granted eligibility for assistance. Each year an actuarial review of the claims portfolio has been conducted to assess the development of claims reserves and to estimate the overall liability associated with the Scheme portfolio. In 2006, approval was sought and obtained to increase the Scheme appropriation to a total of $861 million to meet the estimated cost of the Scheme portfolio. This additional funding is provided through annual appropriations.

The Australian Government Actuary reviews the portfolio annually to reassess the estimated Scheme liability in future years. The most recent review has indicated that the overall cost of the Scheme is estimated to be $730.5 million in discounted terms. This amount incorporates an allowance for future inflation and covers the expected cost of past and future claim payments and associated expenses of managing the Scheme. There is an estimated outstanding claims liability of $18.6m as at 30 June 2012 (2011: $21.8m) as calculated by the Australian Government Actuary.

1.31 Administered financial instruments

AASB 139 *Financial Instruments: Recognition and Measurement* requires financial instruments to be classified into one of four categories. The financial instruments specific to the Treasury's administered items are classified in three of the four categories as detailed below.

Loans and receivables (these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market):

- IMF related monies receivable (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- Loans to the IMF under the New Arrangements to Borrow (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- the Guarantee Scheme for Large Deposits and Wholesale Funding contractual fee receivable (measured initially at fair value and then measured at amortised cost using the effective interest rate method); and
- the Guarantee Scheme for State and Territory Borrowing contractual fee receivable (measured initially at fair value and then measured at amortised cost using the effective interest rate method).

Available-for-sale financial assets:

- investments in development banks (measured initially at cost or notional cost and then measured at fair value);
- the IMF quota (measured at cost); and
- Investments in Government Entities (measured at fair value based on net asset position of the entity at 30 June 2012).

Financial liabilities:

- the SDR allocation (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- promissory notes (measured initially at fair value and then measured at amortised cost using the effective interest rate method);
- IMF related monies payable (measured initially at fair value and then measured at amortised cost using the effective interest rate method); and
- the Guarantee Scheme for Large Deposits and Wholesale Funding contractual guarantee service obligation (measured initially at fair value and then measured at amortised cost using the effective interest rate method).

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Although a number of the Treasury's financial instruments are classified as 'available-for-sale', the Treasury does not hold these instruments for the purposes of trading. Assets that can be reliably measured at reporting date are valued at fair value, otherwise, at cost.

The Guarantee Scheme for Large Deposits and Wholesale Funding and the Guarantee of State and Territory Borrowing contractual fee receivable represents the requirement under AASB 139 *Financial Instruments: Recognition and Measurement* for the Treasury to recognise up-front, its entitlements under the financial guarantee contract to revenue received or receivable from authorised deposit-taking institutions over the contracted guarantee period. Conversely, the Treasury is required to recognise a corresponding initial liability for its contractual obligation to provide a guarantee service over the period covered by each guarantee contract (analogous to unearned income).

Recognition of these amounts only relates to fee revenue aspects of the financial guarantee contracts. These amounts do not reflect any expected liability under the Guarantee Scheme itself as these are considered remote and unquantifiable. Administered contingent liabilities and assets are disclosed at Note 24.

Administered financial instruments are accounted for in accordance with the accounting policies detailed above and are disclosed at Note 26.

Note 2: Events after the reporting period

Departmental

There are no known events occurring after the reporting period that could impact on the financial statements.

Administered

There are no known events occurring after the reporting period that could impact on the financial statements.

Note 3: Operating expenses

	2012 $'000	2011 $'000
Note 3A: Employee Benefits		
Wages and salaries	**94,753**	90,482
Superannuation:		
Defined contribution plans	**5,035**	4,474
Defined benefit plans	**10,407**	11,671
Redundancies	**5,563**	-
Leave and other entitlements[1]	**16,663**	9,620
Other	**2,965**	3,306
Total employee benefits	**135,386**	119,553
Note 3B: Suppliers		
Goods and services		
Information communication technology	**4,856**	4,749
Conferences and Training	**2,397**	2,708
Consultants and Contractors	**7,280**	8,868
Fees — Audit, Accounting, Bank and Other	**1,116**	1,235
Insurance	**1,009**	949
Legal	**1,810**	1,459
Printing	**631**	643
Property operating expenses	**10,899**	11,759
Publications and Subscriptions	**1,427**	1,558
Travel	**5,273**	5,276
Other	**2,965**	3,754
Total goods and services	**39,663**	42,958
Goods and services are made up of:		
Provision of goods from:		
related entities	**64**	2
external entities	**2,511**	2,411
Rendering of services from:		
related entities	**7,502**	6,857
external entities	**20,632**	24,022
Operating lease rentals:[2]		
related entities	**482**	212
external entities	**7,683**	8,755
Workers compensation premiums	**789**	699
Total supplier expenses	**39,663**	42,958
Note 3C: Grants		
Grants paid		
Public sector:		
Australian Government entities (related entities)	**78**	152
Private sector:		
Non-profit organisations	**4,031**	2,925
Total grants	**4,109**	3,077

1 The increase in leave and other entitlements was primarily a result of a significant decrease in the bond rate, which is used to discount long service leave liability.

2 Operating lease rentals comprise minimum lease payments only.

Note 3: Operating expenses (continued)

	2012 $'000	2011 $'000
Note 3D: Depreciation and amortisation		
Depreciation		
Plant and equipment	**2,568**	2,119
Buildings — leasehold improvements	**2,365**	1,889
Total depreciation	**4,933**	4,008
Amortisation		
Intangibles — computer software	**8,485**	7,973
Assets held under finance lease	**-**	34
Total amortisation	**8,485**	8,007
Total depreciation and amortisation	**13,418**	12,015
Note 3E: Finance costs		
Leases	**17**	56
Total finance costs	**17**	56
Note 3F: Write-down and impairment of assets		
Financial assets		
Receivables — bad and doubtful debts	**-**	3
Non-financial assets		
Plant and equipment	**245**	55
Intangibles	**-**	50
Total write-down and impairment of assets	**245**	108

Note 4: Income

	2012 $'000	2011 $'000
Note 4A: Sale of goods and rendering of services		
Rendering of services to:		
related entities	**7,852**	7,387
external entities	**387**	1,153
Operating lease rental — external entities	**94**	83
Total sale of goods and rendering of services	**8,333**	8,623
Note 4B: Other revenue		
MCCA contributions received	**500**	706
Other	**368**	20
Total other revenues	**868**	726
Note 4C: Sale of assets		
Plant and equipment		
Proceeds from sale	**11**	22
Net book value of assets disposed	**(7)**	-
Net gain from sale of assets	**4**	22
Note 4D: Other gains		
Resources received free of charge	**526**	549
Total other gains	**526**	549
Note 4E: Revenue from Government		
Appropriations		
Departmental appropriation	**158,119**	158,268
Total revenue from Government	**158,119**	158,268

Note 5: Financial assets

	2012 $'000	2011 $'000
Note 5A: Cash and cash equivalents		
Cash		
Special Accounts	**296**	85
Cash on hand or on deposit	**812**	751
Total cash and cash equivalents	**1,108**	836
Note 5B: Trade and other receivables		
Goods and Services:		
related entities	**790**	2,914
external parties	**1,128**	623
Total goods and services	**1,918**	3,537
Appropriations Receivable:		
for existing outputs	**51,933**	73,988
for Departmental Capital Budget	**-**	239
Total appropriations receivable	**51,933**	74,227
Other receivables:		
Net GST receivable from the ATO	**1,290**	447
Total other receivables	**1,290**	447
Total trade and other receivables (net)	**55,141**	78,211
All receivables are current assets		
Receivables (gross) are aged as follows:		
Not overdue	**54,844**	76,572
Overdue by:		
0 to 30 days	**176**	1,293
31 to 60 days	**85**	219
61 to 90 days	**16**	77
More than 90 days	**20**	50
Total receivables (gross)	**55,141**	78,211

Credit terms for goods and services were with 30 days (2011:30 days)

Note 6: Non-financial assets

	2012 $'000	2011 $'000
Note 6A: Land and buildings		
Buildings — Leasehold improvements — fair value		
Under construction	**747**	-
At fair value	**8,644**	19,653
Accumulated depreciation	**(2,363)**	(11,775)
Total buildings — leasehold improvements — fair value	**7,028**	7,878
Total land and buildings	**7,028**	7,878

No indicators of impairment were found for land and buildings. All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1.17.

	2012 $'000	2011 $'000
Note 6B: Plant and equipment		
Plant and equipment — fair value		
Under construction	**6,297**	742
At fair value	**9,157**	12,860
Accumulated depreciation	**(2,527)**	(5,207)
Total plant and equipment — fair value	**12,927**	8,395
Plant and equipment under finance lease		
Under finance lease	**-**	53
Accumulated depreciation	**-**	(53)
Total plant and equipment — fair value	**-**	-
Total plant and equipment	**12,927**	8,395

No indicators of impairment were found for plant and equipment. All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1.17.

	2012 $'000	2011 $'000
Note 6C: Intangibles		
Computer software — at cost		
Internally developed — in progress	**538**	1,728
Internally developed — in use	**40,237**	36,551
Purchased	**3,176**	3,129
Accumulated amortisation	**(18,240)**	(10,291)
Total computer software — at cost	**25,711**	31,117
Total intangibles	**25,711**	31,117

No indicators of impairment were found for Intangibles.
No intangibles are expected to be sold or disposed of within the next 12 months.

Note 6: Non-financial assets (continued)

Table A: Reconciliation of the opening and closing balances of property, plant and equipment (2011-12)

	Buildings — leasehold improvements $'000	Plant and equipment $'000	Computer software $'000	Total $'000
As at 1 July 2011				
Gross book value	**19,653**	**13,655**	**41,408**	**74,716**
Accumulated depreciation and impairment	**(11,775)**	**(5,260)**	**(10,291)**	**(27,326)**
Net book value 1 July 2011	**7,878**	**8,395**	**31,117**	**47,390**
Additions	**1,687**	**7,232**	**3,087**	**12,006**
Revaluations and impairments recognised in other comprehensive income	**(172)**	**112**	**-**	**(60)**
Depreciation / amortisation expense	**(2,365)**	**(2,568)**	**(8,485)**	**(13,418)**
Disposals				**-**
Other disposals	**-**	**(244)**	**(8)**	**(252)**
Net book value 30 June 2012	**7,028**	**12,927**	**25,711**	**45,666**
Net book value as of 30 June 2012 represented by:				
Gross book value	**9,391**	**15,454**	**43,951**	**68,796**
Accumulated depreciation and impairment	**(2,363)**	**(2,527)**	**(18,240)**	**(23,130)**
Net book value 30 June 2012	**7,028**	**12,927**	**25,711**	**45,666**

A revaluation of Treasury's buildings — leasehold improvement and plant and equipment was conducted on 1 July 2011.

Note 6: Non-financial assets (continued)

Table A: Reconciliation of the opening and closing balances of property, plant and equipment (2010-11)

	Buildings — leasehold improvements $'000	Plant and equipment $'000	Computer software $'000	Total $'000
As at 1 July 2010				
Gross book value	18,600	11,473	39,913	69,986
Accumulated depreciation and impairment	(9,886)	(3,853)	(3,202)	(16,941)
Net book value 1 July 2010	8,714	7,620	36,711	53,045
Additions	1,208	2,829	2,428	6,465
Depreciation / amortisation expense	(1,889)	(2,153)	(7,973)	(12,015)
Disposals				
Other disposals	-	(55)	(50)	(105)
Transfers	(155)	154	1	-
Net book value 30 June 2011	7,878	8,395	31,117	47,390
Net book value as of 30 June 2011 represented by:				
Gross book value	19,653	13,655	41,408	74,716
Accumulated depreciation and impairment	(11,775)	(5,260)	(10,291)	(27,326)
Net book value 30 June 2011	7,878	8,395	31,117	47,390

Note 6: Non-financial assets (continued)

	2012 $'000	2011 $'000
Note 6D: Other non-financial assets		
Prepayments	**2,502**	2,336
Total other non-financial assets	**2,502**	2,336
Other non-financial assets are expected to be recovered in:		
No more than 12 months	**2,055**	1,888
More than 12 months	**447**	448
Total other non-financial assets	**2,502**	2,336

No indicators of impairment were found for other non-financial assets.

Note 7: Payables

	2012 $'000	2011 $'000
Note 7A: Suppliers		
Trade creditors		
related entities	**112**	461
external entities	**199**	1,962
external entities — non-operating	**-**	781
Total trade creditors	**311**	3,204
Total supplier payables	**311**	3,204

All supplier payables are expected to be settled within 12 months

	2012 $'000	2011 $'000
Note 7B: Other payables		
Salaries and wages	**2,313**	2,209
Superannuation	**411**	375
Other creditors	**1,393**	3,104
Prepayments received	**3,161**	2,505
Total other payables	**7,278**	8,193
Other payables are expected to be settled in:		
No more than 12 months	**7,278**	8,191
More than 12 months	**-**	2
Total other payables	**7,278**	8,193

Note: Settlement is usually made net 30 days.

Note 8: Provisions

	2012	2011
	$'000	$'000
Note 8A: Employee provisions		
Leave	**41,771**	38,586
Other employee entitlements	**105**	128
Total employee provisions	**41,876**	38,714
Employee provisions are expected to be settled in:		
No more than 12 months	**12,860**	10,323
More than 12 months	**29,016**	28,391
Total employee provisions	**41,876**	38,714

Note 9: Restructuring

	2012 $'000	2011 $'000
Note 9A: Departmental Restructuring		
Housing policy		
Assets recognised		
Appropriation receivable	**161**	-
Total assets recognised	**161**	
Liabilities recognised		
Employer payables	**312**	
Supplier payables	**5**	-
Total liabilities recognised	**317**	-
Net assets/(liabilities) assumed	**(156)**	-
Income		
Recognised by the receiving entity	**1,115**	
Recognised by the losing entity	**1,445**	
Total Income	**2,560**	-
Expenses		
Recognised by the receiving entity	**1,007**	-
Recognised by the losing entity	**1,445**	-
Total Expenses	**2,452**	-

The Treasury assumed responsibility for the housing policy function from the Department of Sustainability Environment Water Population and Communities (SEWPaC) due to administrative arrangement restructuring on 27 January 2012.

Note 10: Cash flow reconciliation

	2012 $'000	2011 $'000
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash flow statement	**1,108**	836
Balance sheet	**1,108**	836
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	**(24,988)**	(9,579)
Adjustments for non-cash items		
Depreciation / amortisation	**13,418**	12,015
Net write down of non-financial assets	**245**	108
Gain on disposal of assets	**(4)**	(22)
Loss on disposal of non-current assets	**-**	-
Changes in assets / liabilities		
(Increase) / decrease in net receivables	**17,102**	(718)
(Increase) / decrease in other non financial assets	**(166)**	(537)
Increase / (decrease) in provisions	**3,162**	(396)
Increase / (decrease) in other payables	**(915)**	(1,973)
Increase / (decrease) in supplier payables	**(2,112)**	760
Net cash from / (used by) operating activities	**5,742**	(342)

Note 11: Contingent assets and liabilities

	Studies Assistance		Total	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Contingent liabilities				
Balance from previous period	**300**	272	**300**	272
New	**297**	286	**297**	286
Liabilities recognised	**-**	-	**-**	-
Obligations expired / crystalised	**(300)**	(258)	**(300)**	(258)
Total contingent liabilities	**297**	300	**297**	300
NET CONTINGENT LIABILITIES	**297**	300	**297**	300

Quantifiable contingencies

The schedule of contingencies reports liabilities of $297,389 (2011: $299,963). This amount represents an estimate of the Treasury's liability in respect of studies assistance.

Remote contingencies

The Treasury's lease on its current premises contains a make good clause which has been estimated by an independent valuer at $2.7 million. The Treasury has assessed the likelihood of the make good provision being required and has deemed it as remote.

As at 30 June 2012, the Treasury has a number of contracts which may give rise to contingent liabilities based on certain events occurring. The Treasury has assessed the likelihood of such events occurring as being remote and unquantifiable

Senior executive remuneration

Note 12A: Senior executive remuneration expense for the reporting period

	2012 $	2011 $
Short-term employee benefits		
Salary	**18,874,942**	17,276,068
Annual leave accrued	**285,042**	61,781
Allowances	**1,261,848**	1,085,577
Total short-term employee benefits	**20,421,832**	18,423,426
Post-employment benefits		
Superannuation	**2,705,122**	2,654,245
Total post-employment benefits	**2,705,122**	2,654,245
Other long-term benefits		
Long-service leave	**2,099,405**	642,167
Total other long-term benefits	**2,099,405**	642,167
Termination benefits	**481,476**	-
Total employment benefits	**25,707,835**	21,719,838

Notes:

1. Note 12A is prepared on an accrual basis. No performance bonuses were paid in 2012 (2011: Nil).
2. Note 12A excludes acting arrangements and part-year service where total remuneration expensed for a senior executive was less than $150,000
3. The comparative figures have been revised and do not match what was published in the 2010-11 financial statements due to new disclosure requirements.
4. Note 12A includes employees posted overseas.
5. The increase in long-service leave includes the result of a significant decrease in the bond rate, which is used to discount the long-service leave provision.

Note 12: Senior executive remuneration (continued)

Note 12B: Average annual reportable remuneration paid to substantive senior executives during the reporting period

Average annual reportable remuneration[1]	Senior Executives No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Total $
	2012				
Total remuneration (including part-time arrangements):					
less than $150,000	17	63,547	16,625	-	80,172
$150,000 to $179,999	5	149,672	21,384	-	171,056
$180,000 to $209,999	17	173,026	28,279	-	201,305
$210,000 to $239,999	32	184,649	39,302	-	223,951
$240,000 to $269,999	10	207,070	45,484	-	252,554
$270,000 to $299,999	6	245,183	42,876	-	288,059
$300,000 to $329,999	3	261,674	47,624	-	309,298
$330,000 to $359,999	3	301,700	37,340	-	339,040
$360,000 to $389,999	5	332,615	47,591	-	380,206
$390,000 to $419,999	1	329,282	74,086	-	403,368
$540,000 to $579,999	1	439,927	114,300	-	554,227
Total	100				

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. 'Reportable salary' includes the following:
   a) gross payments;
   b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
   c) exempt foreign employment income
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
5. No bonuses were paid in 2012.
6. Various salary sacrifice arrangements were available to senior executives including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.
7. Employees posted overseas are included in this table.

Note 12: Senior executive remuneration (continued)

Average annual reportable remuneration[1]	Senior Executives No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Total $
	2011				
Total remuneration (including part-time arrangements):					
less than $150,000	32	65,218	13,250	-	78,467
$150,000 to $179,999	3	133,275	29,255	-	162,531
$180,000 to $209,999	16	166,537	29,556	-	196,093
$210,000 to $239,999	32	182,552	39,727	-	222,279
$240,000 to $269,999	14	208,928	46,105	767	255,799
$270,000 to $299,999	5	254,499	35,497	-	289,995
$330,000 to $359,999	3	300,116	40,872	-	340,988
$360,000 to $389,999	4	295,761	79,216	-	374,977
$420,000 to $449,999	1	322,408	109,428	-	431,836
$480,000 to $509,999	1	478,224	25,282	-	503,505
Total	111				

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. 'Reportable salary' includes the following:
   a) gross payments;
   b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
   c) exempt foreign employment income
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries
5. No bonuses were paid in 2011.
6. Various salary sacrifice arrangements were available to senior executives including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.
7. Employees posted overseas are included in this table.
8. The comparative figures have been revised and do not match what was published in the 2010-11 financial statements due to new disclosure requirements. The reporting requirements can be found in the Finance Ministers Orders, which are available on www.finance.gov.au.

Note 12: Senior executive remuneration (continued)

Note 12C: Other highly paid staff

	2012				
Average annual reportable remuneration[1]	Staff	Reportable salary[2]	Contributed superannuation[3]	Reportable allowances[4]	Total
	No.	$	$	$	$
Total remuneration (including part time arrangements):					
$150,000 to $179,999	59	131,369	25,494	48	156,911
$180,000 to $209,999	2	172,821	26,712	-	199,533
$300,000 to $329,999	1	290,314	21,034	-	311,348
Total	62				

Notes:

1. This table reports staff:
   a) who were employed by the entity during the reporting period;
   b) whose reportable remuneration was $150,000 or more for the financial period; and
   c) were not required to be disclosed in Tables A or B.

Each row is an averaged figure based on headcount for individuals in the band.

2. 'Reportable salary' includes the following:
   a) gross payments;
   b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
   c) exempt foreign employment income
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
5. No bonuses were paid in 2012.
6. Various salary sacrifice arrangements were available to other highly paid staff including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.
7. Employees posted overseas are included in this table.

Note 12: Senior executive remuneration (continued)

			2011		
Average annual reportable remuneration[1]	**Staff**	**Reportable salary**[2]	**Contributed superannuation**[3]	**Reportable allowances**[4]	**Total**
	No.	**$**	**$**	**$**	**$**
Total remuneration (including part time arrangements):					
$150,000 to $179,999	38	124,519	31,627	-	156,146
$330,000 to $359,999	1	283,638	52,592	-	336,229
Total	39				

Notes:

1. This table reports staff:
   a) who were employed by the entity during the reporting period;
   b) whose reportable remuneration was $150,000 or more for the financial period; and
   c) were not required to be disclosed in Tables A or B.

Each row is an averaged figure based on headcount for individuals in the band.

2. 'Reportable salary' includes the following:
   a) gross payments;
   b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
   c) exempt foreign employment income
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
5. No bonuses were paid in 2011.
6. Various salary sacrifice arrangements were available to other highly paid staff including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.
7. Employees posted overseas are included in this table.

Note 13: Remuneration of auditors

	2012	2011
	$'000	$'000
Financial statement audit services were provided free of charge to the Treasury.		
The fair value of the services provided was:		
Financial statement audit services	**398**	434
Total	**398**	434

Note: The above amounts are exclusive of GST. No other services were provided by the Auditor General.

Note 14: Financial instruments

	2012	2011
	$'000	$'000
Note 14A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	**1,108**	836
Trade receivables	**1,918**	3,537
Carrying amount of financial assets	**3,026**	4,373
Financial Liabilities		
Liabilities at amortised cost		
Supplier payables	**311**	3,204
Other payables — other creditors	**1,393**	3,104
Carrying amount of financial liabilities	**1,704**	6,308
Note 14B: Net income and expense from financial liabilities		
Liabilities — at amortised cost		
Interest expense	**(17)**	(56)
Net gain/(loss) from financial liabilities — at amortised cost	**(17)**	(56)
Net gain/(loss) from financial liabilities	**(17)**	(56)

Note 14C: Fair value of financial instruments

The net fair values of the Treasury's financial assets and financial liabilities are approximated by their carrying amounts.

The financial assets and financial liabilities as disclosed in Note 14A are measured under Level 2 of the fair value hierarchy as they are based on observable inputs. There have been no reclassifications between levels of the fair value hierarchy.

Note 14: Financial instruments (continued)

Note 14D: Credit risk

The Treasury is exposed to minimal credit risk as financial assets only include cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total amount of trade receivables (2012: $1,918,669 and 2011: $3,537,308). The Treasury has assessed the risk of default on payment as being minimal.

Other government agencies and staff members make up the majority of the Treasury's debtors. To aid the Treasury to manage its credit risk there are internal policies and procedures that guide employees on debt recovery techniques that are to be applied.

The Treasury holds no collateral to mitigate against credit risk.

Credit quality of financial instruments not past due or individually determined as impaired

	Not past due nor impaired 2012 $'000	Not past due nor impaired 2011 $'000	**Past due or impaired 2012 $'000**	Past due or impaired 2011 $'000
Loans and receivables				
Cash and cash equivalents	**1,108**	836	**-**	-
Trade receivables	**1,620**	1,898	**298**	1,639
Total	**2,728**	2,734	**298**	1,639

Ageing of financial assets that were past due but not impaired for 2012

	0 to 30 days $'000	**31 to 60 days $'000**	**61 to 90 days $'000**	**90+ days $'000**	**Total $'000**
Loans and receivables					
Trade receivables	**176**	**86**	**16**	**20**	**298**
Total	**176**	**86**	**16**	**20**	**298**

Ageing of financial assets that were past due but not impaired for 2011

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+ days $'000	Total $'000
and receivables					
Trade receivables	1,293	219	77	50	1,639
Total	1,293	219	77	50	1,639

Note 14: Financial instruments (continued)

Note 14E: Liquidity risk

The Treasury's financial liabilities are payables. The exposure to liquidity risk is based on the notion that the Treasury will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to the appropriation funding mechanisms available to the Treasury and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The Treasury is appropriated funding from the Australian Government. The Treasury manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, the Treasury has policies in place to ensure timely payments are made when due and has no past experience of default.

Maturities for non-derivative financial liabilities 2012

	On demand $'000	Within 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	> 5 years $'000	Total $'000
Liabilities at amortised cost						
Payables — suppliers	-	311	-	-	-	311
Other payables	-	1,393	-	-	-	1,393
Total	-	1,704	-	-	-	1,704

Maturities for non-derivative financial liabilities 2011

	On demand $'000	Within 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	> 5 years $'000	Total $'000
Liabilities at amortised cost						
Payables — suppliers	-	3,204	-	-	-	3,204
Other payables	-	3,102	2	-	-	3,104
Total	-	6,306	2	-	-	6,308

Note 14F: Market risk

The Treasury holds only basic financial instruments that do not expose the department to certain market risks.

Note 15: Financial assets reconciliation

		2012	2011
		$'000	$'000
Financial assets	**Notes**		
Total financial assets as per balance sheet		**56,249**	79,047
Less: non-financial instrument components			
Appropriation receivables	5B	**51,933**	74,227
GST receivable from the ATO	5B	**1,290**	447
Total non-financial instrument components		**53,223**	74,674
Total financial assets as per financial instruments note	14A	**3,026**	4,373

Note 16: Administered expenses

	2012	2011
	$'000	$'000
Note 16A: Grants		
Public sector:		
State and Territory Governments	**83,612,420**	85,548,292
Payment of COAG receipts from Government agencies	**3,230,916**	1,332,351
Other grants	**2,450**	54,994
Total grants	**86,845,786**	86,935,637
Note 16B: Interest		
IMF charges	**11,289**	18,734
Total interest	**11,289**	18,734
Note 16C: Other expenses		
Suppliers expenses	**11,388**	6,765
Total other expenses	**11,388**	6,765

Note 17: Administered income

	2012	2011
	$'000	$'000
Note 17A: Interest		
Gross IMF remuneration	**3,129**	3,734
Less: Burden sharing	**(63)**	(21)
Net IMF remuneration	**3,066**	3,713
Interest on loan to IMF under New Arrangements to Borrow	**722**	127
Interest on loans to States and Territories	**251**	-
Total interest	**4,039**	3,840
Note 17B: Dividends		
Reserve Bank of Australia	**500,000**	-
Australian Reinsurance Pool Corporation	**400,000**	-
Total dividends	**900,000**	-
Note 17C: Sale of goods and rendering of services		
GST administration fees — external entities	**677,367**	673,347
Guarantee Scheme for Large Deposits and Wholesale Funding Fee	**847,780**	1,106,067
Guarantee of State and Territory Borrowing	**63,373**	100,129
Total sale of goods and rendering of services	**1,588,520**	1,879,543
Note 17D: COAG revenue from Government		
Building Australia Fund revenue	**2,236,700**	826,100
Health and Hospital Fund revenue	**885,575**	408,179
Education and Innovation Fund revenue	**24,877**	21,698
Interstate road transport revenue	**83,764**	87,380
Non-government schools revenue	**-**	7,700
Total COAG receipts from government agencies	**3,230,916**	1,351,057
Note 17E: Other revenue		
Write back of HCS Scheme	**-**	5,434
HIH Group liquidation proceeds	**23,479**	62,244
Other revenue	**5,288**	4,591
Total other revenue	**28,767**	72,269
Note 17F: Foreign exchange gains		
IMF SDR allocation	**14,954**	869,147
IMF maintenance of value	**6,309**	342,113
IMF quota revaluation	**(15,697)**	(788,040)
IFIs revaluation	**2,552**	(95,035)
Other	**(2,224)**	10,034
Total foreign exchange gains	**5,894**	338,219

Note 18: Administered financial assets

	2012 $'000	2011 $'000
Note 18A: Cash and cash equivalents		
Cash on hand or on deposit	**1,735**	4,763
Total cash and cash equivalents	**1,735**	4,763
Note 18B: Receivables & loans		
Guarantee Scheme for Large Deposits and Wholesale Funding contractual fee receivable	**1,064,144**	1,825,935
Guarantee Scheme for Large Deposits and Wholesale Funding fee receivable	**60,882**	78,824
Guarantee of State and Territory Borrowing contractual fee receivable	**265,960**	301,920
Guarantee of State and Territory Borrowing fee receivable	**4,738**	5,998
Net GST receivable from the ATO	**52**	17
HLIC premiums receivable	**-**	40
Loans to States and Territories	**15,101**	-
IMF related moneys owing	**277**	950
IMF maintenance of value	**-**	342,113
IMF new arrangements to borrow loan	**661,133**	224,547
Dividends receivable	**900,000**	-
NDRRA receivables	**-**	128,643
Other receivables	**17,577**	13,860
Total receivables (gross)	**2,989,864**	2,922,847
Receivables are expected to be recovered in:		
No more than 12 months	**1,452,023**	570,445
More than 12 months	**1,537,841**	2,352,402
Total receivables (gross)	**2,989,864**	2,922,847
Receivables are aged as follows:		
Not overdue	**2,989,864**	2,922,847
Total receivables (gross)	**2,989,864**	2,922,847

Note 18: Administered financial assets (continued)

	2012 $'000	2011 $'000
Note 18C: Investments		
International financial institutions		
Asian Development Bank	**338,793**	261,954
European Bank for Reconstruction and Development	**77,360**	84,537
International Bank for Reconstruction and Development	**180,902**	169,244
International Finance Corporation	**46,442**	44,072
Multilateral Investment Guarantee Agency	**6,084**	5,774
Total international financial institutions	**649,581**	565,581
Australian Government entities		
Reserve Bank of Australia	**6,369,000**	5,339,000
Australian Reinsurance Pool Corporation	**349,394**	665,846
Total Australian Government entities	**6,718,394**	6,004,846
Total Investments	**7,367,975**	6,570,427
Investments are expected to be recovered in:		
No more than 12 months	**-**	-
More than 12 months	**7,367,975**	6,570,427
Total Investments	**7,367,975**	6,570,427
Note 18D: Other investments		
IMF quota	**4,797,510**	4,813,206
Total other investments	**4,797,510**	4,813,206
Other Investments are expected to be recovered in:		
No more than 12 months	**-**	-
More than 12 months	**4,797,510**	4,813,206
Total other investments	**4,797,510**	4,813,206

Note 19: Administered non-financial assets

	2012 $'000	2011 $'000
Note 19A: Other non-financial assets		
Prepayments — Infrastructure	**1,788**	14,526
Prepayments — FaHCSIA	**26,900**	-
Prepayments — Health	**59,572**	-
Prepayments — NSPP/GST payments to States and Territories	**-**	265
Total other non-financial assets	**88,260**	14,791
Other non-financial assets are expected to be recovered in:		
No more than 12 months	**88,260**	14,791
More than 12 months	**-**	-
Total other non-financial assets	**88,260**	14,791

Note 20: Administered payables

	2012 $'000	2011 $'000
Note 20A: Grants		
COAG grants payable	**473,356**	884,081
Total grants	**473,356**	884,081
Total grants are expected to be settled in:		
No more than 12 months	**473,356**	884,081
More than 12 months	**-**	-
Total grants, subsidies and personal benefits	**473,356**	884,081
Note 20B: Other payables		
GST appropriation payable	**51**	38
IMF SDR allocation	**4,570,369**	4,585,323
IMF related monies owing	**973**	3,982
Other	**1**	5
Total other payables	**4,571,394**	4,589,348
Total other payables are expected to be settled in:		
No more than 12 months	**1,025**	4,025
More than 12 months	**4,570,369**	4,585,323
Total other payables	**4,571,394**	4,589,348
Note 20C: Unearned income		
Guarantee Scheme for Large Deposits and Wholesale Funding Contractual guarantee service obligation	**1,064,144**	1,825,935
Guarantee of State and Territory Borrowing contractual guarantee service obligation	**265,960**	301,920
Total Unearned income	**1,330,104**	2,127,855
Total unearned income are expected to be settled in:		
No more than 12 months	**693,497**	902,380
More than 12 months	**636,607**	1,225,475
Total unearned income	**1,330,104**	2,127,855

Note 21: Administered interest bearing liabilities

	2012 $'000	2011 $'000
Note 21A: Loans		
IMF promissory notes[1]	**3,141,726**	3,781,655
Other promissory notes[1]	**118,181**	69,381
Total loans	**3,259,907**	3,851,036
Payable:		
Within one year	**-**	-
In one to five years	**50,247**	28,030
In more than five years	**3,209,660**	3,823,006
Total loans	**3,259,907**	3,851,036

1 Promissory notes held by the Treasury are at face value and have no interest rate associated.

Note 22: Administered provisions

Note 22A: Other provisions		
Provision for HCS Scheme	**18,162**	21,773
NDRRA provision	**3,936,904**	4,575,087
Total other provisions	**3,955,066**	4,596,860
Other provisions are expected to be settled in:		
No more than 12 months	**420,943**	563,981
More than 12 months	**3,534,123**	4,032,879
Total other provisions	**3,955,066**	4,596,860

Reconciliation of movements in other provisions	**Provision for HCS Scheme $'000**	**NDRRA provision $'000**	**Total $'000**
Carrying amount 1 July 2011	**21,773**	**4,575,087**	**4,596,860**
Additional provisions made	**-**	**1,148,730**	**1,148,730**
Amounts used	**(3,611)**	**(2,960,564)**	**(2,964,175)**
Amounts revalued	**-**	**836,062**	**836,062**
Unwinding of discount or change in discount rate	**-**	**337,589**	**337,589**
Closing balance 2012	**18,162**	**3,936,904**	**3,955,066**

Note 23: Administered cash flow reconciliation

	2012 $'000	2011 $'000
Reconciliation of cash and cash equivalents as per Schedule of Administered Assets and Liabilities to Cash Flow Statement		
Cash and cash equivalents as per:		
Schedule of Administered Cash Flows	**1,735**	4,763
Schedule of Administered Assets and Liabilities	**1,735**	4,763
Difference	**-**	-
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	**81,110,327**	83,316,208
Adjustments for non-cash items		
Foreign exchange loss/(gain)	**(5,894)**	(338,219)
Changes in assets / liabilities		
(Increase) / decrease in net receivables	**42,424**	1,835,833
(Increase) / decrease in other non-financial assets	**(73,469)**	530,555
Increase / (decrease) in grants payable	**(410,725)**	476,628
Increase / (decrease) in unearned income	**(797,751)**	(1,195,053)
Increase / (decrease) in loans	**-**	-
Increase / (decrease) in other payables	**(2,974)**	(14,122)
Increase / (decrease) in other provisions	**(641,794)**	3,476,963
Net cash from (used by) operating activities	**(83,000,510)**	(78,543,623)

Note 24: Administered contingent assets and liabilities

Quantifiable administered contingencies

Quantifiable administered contingencies that are not remote are disclosed in the schedule of administered items as quantifiable administered contingencies.

Commitments under expanded IMF New Arrangements to Borrow (NAB)

Australia has made a line of credit available to the IMF under its NAB since 1998. In line with G20 Leaders' commitments, Australia has joined with other countries to increase its credit line under an expanded NAB. The NAB is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The funds are drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest.

When the expanded NAB came into effect on 11 March 2011, Australia's NAB credit arrangement increased from SDR801.3 million (A$1,187.8 million as at 30 June 2012) to SDR 4,370.4 million (A$6,478.5 million as at 30 June 2012).

Unquantifiable administered contingencies

Contingent Liabilities

Housing Loans Insurance Corporation — guarantee

The Australian Government sold HLIC on 12 December 1997 and has assumed all residual contingencies. The contingent liability relates to the HLIC's contracts of mortgage insurance and any borrowings approved by the Treasurer up to the time of sale. The principal amount covered by the guarantee and the balances outstanding cannot be determined accurately.

Terrorism insurance — Australian Reinsurance Pool Corporation

The *Terrorism Insurance Act 2003* established a scheme for replacement terrorism insurance covering damage to commercial property including associated business interruption and public liability. The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses and to build a reserve for claims and purchase retrocession to help meet future claims. The Act provides for an Australian Government guarantee of the liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured parties if the Australian Government's overall liability would otherwise exceed $10 billion.

Commitments under expanded IMF New Arrangements to Borrow (NAB)

Australia has made a line of credit available to the IMF under its NAB since 1998. During 2011-2012 Australia met four calls under the NAB totalling A$444.6 million (SDR 295.1 million). In 2010-11 Australia provided A$225.1 million (SDR150.9 million) under the NAB. These calls have been recognised as loans to the IMF in Note 18.

Note 24: Administered contingent assets and liabilities (continued)

Under the IMF's current 'Resource Mobilization Plan', a maximum of SDR 177.7 million (A$263.4 million as at 30 June 2012) could be called by the IMF between the period 1 July 2011 to 30 September 2012. As at the completion of these statements, the IMF has not called on the NAB.

Grants to States and Territories

As the Treasury has responsibility for all payments to the States and Territories under the Federal Financial Relations Framework, there may exist contingent liabilities which are remote and unquantifiable in relation to some agreements between the relevant agency with policy responsibility and the States and Territories. Whilst the Treasury does not bear the risk of the contingent event, the resultant payment would be made and reported by the Treasury under the Federal Financial Relations Framework.

Loan to New South Wales for James Hardie Asbestos Injuries Compensation Fund

The Australian Government has agreed to lend up to $160 million to the State Government of New South Wales (NSW) to support the loan facility to top up the James Hardie Asbestos Injuries Compensation Fund. Drawing on the loan is subject to the James Hardie Asbestos Injuries Compensation Fund requiring funds to meet its liabilities and is contingent on NSW meeting a number of conditions under the loan agreement with the Australian Government. The timing and amounts that may be drawn down by NSW cannot be determined accurately. On 16 February 2012 a loan of $14.9 million was provided to the State Government of NSW in respect of the loan facility. (2011: Nil).

Contingent Assets

HIH Claims Support Scheme

As the beneficiary of the HIH Claims Support Trust, the Australian Government is entitled to the residual balance of the Trust, after the collection of recoveries. Due to the inherent uncertainty of future recoveries, it is not possible to quantify these amounts accurately. During 2011-12 the Treasury received distributions from the Trust, however the amount and timing of future recoveries and subsequent distributions is unknown.

Burden sharing in the International Monetary Fund remuneration

Since 1986, the IMF has used its burden sharing mechanism to make up for the loss of income from unpaid interest charges on the loans of debtor members and to accumulate precautionary balances in a Special Contingent Account to protect the IMF against losses arising from the failure of a member to repay its overdue principal obligations.

The mechanism works by providing for additions to the rate of charge on IMF loans and deductions to the rate of remuneration for creditor members such as Australia. Resources collected from individual members under the burden sharing mechanism are refundable to them as arrears cases are resolved, or as may be decided by the IMF.

Note 24: Administered contingent assets and liabilities (continued)

Thus, resources collected for unpaid charges are refunded when these charges are eventually settled.

Likewise, precautionary balances held in the Special Contingent Account would be distributed back to members in proportion to their cumulative contributions when there are no overdue charges or principal balances. The IMF could also decide to make an early distribution.

As there is considerable and inherent uncertainty around the timing and amounts of burden sharing to be refunded to Australia this contingent asset cannot be reliably measured and as such is recorded as an unquantifiable contingent asset.

Note 24: Administered contingent assets and liabilities (continued)

Significant Remote administered contingencies

Guarantees

The following borrowings have been guaranteed by the Australian Government and are the Treasury's responsibility:

Borrower	Legislation authorising guarantee	Principal covered by guarantee 2012 $'000	Balance outstanding 2012 $'000	Balance outstanding 2011 $'000
Papua New Guinea	Papua New Guinea 1949 Papua New Guinea 1975 Papua New Guinea Loans Guarantee Act 1975	**1,800**	**1,800**	4,895
Commonwealth Bank of Australia[1]	Commonwealth Bank of Australia Act 1959 s117	**780,811**	**780,811**	750,252
Commonwealth Bank of Australia — Officers Superannuation Corporation[1]	Commonwealth Bank of Australia Act 1959 s117	**3,721,200**	**3,721,200**	3,709,000
Guarantee Scheme for Large Deposits and Wholesale Funding	Guarantee Scheme for Large Deposits and Wholesale Funding Appropriation Act 2008	**91,000,000**	**91,000,000**	118,004,000
Guarantee of State and Territory Borrowing	Guarantee of State and Territory Borrowing Appropriation Act 2009	**32,000,000**	**32,000,000**	39,500,000
Reserve Bank of Australia[2]	Reserve Bank of Australia Act 1959 s77	**58,349,000**	**58,349,000**	55,727,000
Total		**185,852,811**	**185,852,811**	217,695,147

1 Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various liabilities of the Commonwealth Bank of Australia (CBA), and the Commonwealth Bank Officers' Superannuation Corporation (CBOSC). The guarantee for the CBA relates to both on and off balance sheet liabilities. The guarantee of the CBOSC covers the due payments of any amount that is payable to or from Officers' of the Superannuation Fund (the Fund), by CBOSC or by CBA, in respect of a person who was a member, retired member or beneficiary of the Fund immediately before 19 July 1996. The guarantee of the CBA and CBOSC reflected in the above table is the value at 30 June 2012.

2 The contingent liability for the RBA, relates to the Australian Government's guarantee of the liabilities of the RBA. It is measured as the Bank's total liabilities excluding the Bank's distribution to the Commonwealth and Australian Government deposits. The major component of the Bank's liabilities are notes (that is, currency) on issue.

Note 24: Administered contingent assets and liabilities (continued)

Guarantee Scheme for Large Deposits and Wholesale Funding

The Australian Government announced the guarantee of eligible deposits and wholesale funding for authorised deposit taking institutions from 12 October 2008 under the Guarantee Scheme for Large Deposits and Wholesale Funding.

The Scheme closed to new deposits from 31 March 2010. Since then, Australian authorised deposit-taking institutions have been prohibited from issuing any new guaranteed wholesale funding or accepting new guaranteed deposits above $1 million. Existing guaranteed wholesale funding is guaranteed to maturity. Depositors who covered their balances above $1 million under the Guarantee Scheme can have those funds covered to maturity for term deposits up to five years, or until October 2015 for at call deposits.

The expected liability for the Government under the Guarantee Scheme is remote and unquantifiable. Australia's financial system is considered among the strongest and best regulated in the world. Authorised deposit-taking institutions are subject to prudential regulation by APRA in accordance with international standards, which are designed to ensure that financial institutions have the capacity to meet their financial obligations. This framework requires institutions to be adequately capitalised and have appropriate risk management systems in place.

Government expenditure would arise under the guarantee only in the unlikely event that an institution failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. The impact on the Government's budget would depend on the extent of the institution's default.

As at 30 June 2012, total liabilities covered by the Guarantee Scheme were estimated at $91.0 billion, including $2.9 billion of large deposits and $88.1 billion of wholesale funding.

Guarantee of State and Territory Borrowing

The Guarantee of State and Territory Borrowing commenced on 24 July 2009 and closed to new issuances of guaranteed liabilities on 31 December 2010. Securities covered by the guarantee will continue to be guaranteed until these securities either mature or are bought back and extinguished by the issuer.

The expected liability under the guarantee is remote and unquantifiable. Government expenditure would arise under the guarantee only in the unlikely event that a State or Territory failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant State or Territory at a future date. The impact on the Government's budget would depend upon the extent of the default and the State or Territory's ability to meet the Government's claim.

As at 30 June 2012, the face value of state and territory borrowings covered by the guarantee was $32.0 billion.

Note 25: Administered investments

The principal activities of each of the Treasury's administered investments are as follows:

Development Banks

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to assist former communist eastern European countries committed to the principles of multi-party democracy, pluralism and market economies, to develop their private sector and capital markets. The EBRD currently operates in 29 countries from Central Europe to Central Asia. It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state-owned firms and improvement of municipal services. The EBRD uses its close relationship with governments in the region to promote policies that will bolster the business environment.

The Asian Development Bank (ADB) was established in 1966 and has a mandate to reduce poverty and promote economic development in its developing member countries. The ADB does this by financing (through a mix of loans, grants, guarantees and co-financing activities with both other donors and the private sector) public sector and private sector activities. It also provides technical assistance to developing member countries so they can improve their policy and business investment environments. A significant portion of the ADB's activities are focused in the infrastructure and energy sectors.

The World Bank was established in 1944 and comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IBRD provides financing and technical assistance to middle income countries and lends on harder terms than the IDA. The IDA provides concessional finance and technical assistance to low income countries. The IFC supports the development of the private sector by providing direct finance to private sector operations. MIGA provides guarantee services for projects, which reduce the risks for other co-financing partners including the private sector.

International Monetary Fund

The IMF is an organisation of 188 countries, working to foster global monetary cooperation and exchange rate stability, facilitate the balanced growth of international trade, and provide resources to help members in balance of payments difficulties or to assist with poverty reduction. The IMF undertakes surveillance and annual economic assessments, and provides technical assistance to member countries.

Australian Government entities

The Australian Government's investment in controlled entities and companies in the Treasury portfolio are measured at their fair value. Fair value has been taken to be the net assets of the entities as at balance date.

Note 25: Administered investments (continued)

Reserve Bank of Australia

The Reserve Bank of Australia is Australia's central bank. Its duty is to contribute to the maintenance of price stability, full employment, and the economic prosperity and welfare of the Australian people. It does this by setting the cash rate to meet a medium-term inflation target, working to maintain a strong financial system and efficient payments system, and issuing the nation's banknotes. The Bank provides selected banking services to the Australian Government and its agencies, and to a number of overseas central banks and official institutions. Additionally, it manages Australia's gold and foreign exchange reserves.

Australian Reinsurance Pool Corporation

ARPC is a statutory authority established by the Terrorism Insurance Act 2003 to administer the terrorism reinsurance scheme, providing primary insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorist incident.

Note 26: Administered financial instruments

	2012 $'000	2011 $'000
Note 26A: Categories of financial instruments		
Financial Assets		
Loans and receivables:		
Cash and cash equivalents	**1,735**	4,763
IMF related monies owing	**277**	950
Guarantee Scheme for Large Deposits and Wholesale Funding contractual fee receivable	**1,064,144**	1,825,935
Guarantee Scheme for Large Deposits and Wholesale Funding fee receivable	**60,882**	78,824
Guarantee of State and Territory Borrowing contractual fee receivable	**265,960**	301,920
Guarantee of State and Territory Borrowing fee receivable	**4,738**	5,998
IMF maintenance of value	**-**	342,113
IMF new arrangements to borrow loan	**661,133**	224,547
Loans to States and Territories	**15,101**	-
Dividends receivable	**900,000**	-
NDRRA receivables	**-**	128,643
Other receivables	**17,577**	13,900
Total loans and receivables	**2,991,547**	2,927,593
Available for sale:		
International financial institutions	**649,581**	565,581
Australian Government entities	**6,718,394**	6,004,846
IMF Quota	**4,797,510**	4,813,206
Total available for sale	**12,165,485**	11,383,633
Carrying amount of financial assets	**15,157,032**	14,311,226
Financial Liabilities		
At amortised cost:		
Promissory notes	**3,259,907**	3,851,036
Grant liabilities	**473,356**	884,081
IMF SDR allocation liability	**4,570,369**	4,585,323
Other payables	**974**	3,987
Guarantee Scheme for Large Deposits and Wholesale funding contractual guarantee service obligation	**1,064,144**	1,825,935
Guarantee of State and Territory Borrowing contractual guarantee service obligation	**265,960**	301,920
Other liabilities	**18,162**	21,773
Total financial liabilities at amortised cost	**9,652,872**	11,474,055
Carrying amount of financial liabilities	**9,652,872**	11,474,055

Note 26: Administered financial instruments (continued)

	2012	2011
	$'000	$'000
Note 26B: Net income and expense from financial assets		
Loans and receivables		
Guarantee Scheme for Large Deposits and Wholesale Funding fee	**847,780**	1,106,067
Guarantee of State and Territory Borrowing	**63,373**	100,129
Interest revenue	**973**	127
Net gain/(loss) loans and receivables	**912,126**	1,206,323
Available for sale financial assets		
Interest revenue	**3,066**	3,840
Exchange gains/(loss)	**1,071**	(541,679)
Net gain/(loss) available for sale	**4,137**	(537,839)
Net gain/(loss) from financial assets	**916,263**	668,484
Note 26C: Net income and expense from financial liabilities		
Financial liabilities — at amortised cost		
IMF Charges	**11,289**	(18,734)
Exchange gains/(loss)	**12,730**	879,898
Net gain/(loss) financial liabilities — at amortised cost	**24,019**	861,164
Net gain/(loss) from financial liabilities	**24,019**	861,164

Note 26: Administered financial instruments (continued)

Note 26D: Fair value of financial instruments

The net fair values of Treasury's administered financial instruments are equal to the carrying amount.

Fair value measurements categorised by fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value, by valuation method. The different levels are defined below:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value hierarchy for financial assets

	Level 1		Level 2		Level 3		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Loans and receivables								
IMF related monies owing	-	-	**277**	950	**-**	-	**277**	950
Guarantee Scheme for Large Deposits and Wholesale Funding contractual fee receivable	-	-	**-**	-	**1,064,144**	1,825,935	**1,064,144**	1,825,935
Guarantee Scheme for Large Deposits and Wholesale Funding fee receivable	-	-	**60,882**	78,824	**-**	-	**60,882**	78,824
Guarantee of State and Territory Borrowing contractual fee receivable	-	-	**-**	-	**265,960**	301,920	**265,960**	301,920
Guarantee of State and Territory Borrowing fee receivable			**4,738**	5,998			**4,738**	5,998
IMF maintenance of value	-	-	**-**	342,113	**-**	-	**-**	342,113
IMF new arrangements to borrow loan	-	-	**661,133**	224,547	**-**	-	**661,133**	224,547
Loans to States and Territories	-	-	**15,101**	-	**-**	-	**15,101**	-
HLIC premiums receivable	-	-	**-**	40	**-**	-	**-**	40
Dividend receivables	-	-	**900,000**	-	**-**	-	**900,000**	-
NDRRA receivables	-	-	**-**	128,643	**-**	-	**-**	128,643
Other receivables	-	-	**17,577**	13,860	**-**	-	**17,577**	13,860
Total	-	-	**1,659,708**	794,975	**1,330,104**	2,127,855	**2,989,812**	2,922,830

Note 26: Administered financial instruments (continued)

Note 26D: Fair value of financial instruments (continued)

Available for sale								
International financial institutions	-	-	**649,581**	565,581	**-**	-	**649,581**	565,581
Australian Government entities	-	-	**6,718,394**	6,004,846	**-**	-	**6,718,394**	6,004,846
IMF Quota	-	-	**4,797,510**	4,813,206	**-**	-	**4,797,510**	4,813,206
Total	-	-	**12,165,485**	11,383,633	**-**	-	**12,165,485**	11,383,633
Amortised cost								
Promissory notes	**-**	-	**3,259,907**	3,851,036	**-**	-	**3,259,907**	3,851,036
Grant liabilities	**-**	-	**473,356**	884,081	**-**	-	**473,356**	884,081
IMF SDR allocation liability	**-**	-	**4,570,369**	4,585,323	**-**	-	**4,570,369**	4,585,323
Other payables	**-**	-	**974**	4,025	**-**	-	**974**	4,025
Other liabilities	**-**	-	**-**	-	**18,162**	21,773	**18,162**	21,773
Guarantee Scheme for Large Deposits and Wholesale funding contractual guarantee service obligation	**-**	-	**-**	-	**1,064,144**	1,825,935	**1,064,144**	1,825,935
Guarantee of State and Territory Borrowing contractual guarantee service obligation					**265,960**	301,920	**265,960**	301,920
Total	**-**	-	**8,304,606**	9,324,465	**1,348,266**	2,149,628	**9,652,872**	11,474,093

Note 26: Administered financial instruments (continued)

Fair value measurements categorised by fair value hierarchy

	Loans and receivables	
	2012	2011
	$'000	$'000
Financial assets at fair value — Level 3		
Opening balance	**2,127,855**	3,322,908
Settlement	**(797,751)**	(1,195,053)
Closing balance	**1,330,104**	2,127,855

	Available for sale financial assets	
	2012	2011
	$'000	$'000
Financial assets at fair value — level 3		
Opening balance	**6,570,427**	17,213,607
Total gains or losses for the period recognised in profit or loss[1]	**10,439**	(883,077)
Total gains or losses recognised in other comprehensive income[2]	**713,548**	(4,993,614)
Purchases	**73,561**	46,717
Transfers out of Level 3[3]	**(7,367,975)**	-
Closing balance	**-**	11,383,633

1. These gains and losses are presented in the schedule of administered comprehensive income under other gains, net foreign exchange gains exchange losses.

2. These gains and losses are presented in the Administered Reconciliation Schedule

3. Investments in International Financial Institutions are based on paid in capital, and in Australian Government entities are based on the Net asset position of the entity. Both are recorded at fair value using observable prices and should be recorded as Level 2 financial assets.

	At amortised cost	
	2012	2011
	$'000	$'000
Financial liabilities at fair value — Level 3		
Opening balance	**2,149,628**	3,358,370
Total gains or losses recognised in other comprehensive income	**-**	3,085,498
Issues	**(797,751)**	(1,195,053)
Settlements	**(3,611)**	(3,099,187)
Closing balance	**1,348,266**	2,149,628

Note 26: Administered financial instruments (continued)

Note 26F: Credit risk

The maximum exposure to credit risk of the Treasury's administered financial assets is the carrying amount of 'loans and receivables' (2012: $2,991,547,000 and 2011: $2,927,593,000) and the carrying amount of 'available for sale financial assets' (2012: $12,165,485,000 and 2011: $11,383,633,000).

However, the international financial institutions that the Treasury holds its financial assets with, hold a minimum of AAA credit ratings. The contractual fee receivable arising from the Guarantee Scheme for Large Deposits and Wholesale Funding and Guarantee of State and Territory Borrowing that the Treasury holds relates only to prudentially regulated Authorised Deposit-taking Institutions (ADIs) and State and Territory Governments. These entities hold a minimum of AA credit ratings, therefore the Treasury does not consider any of its financial assets to be at risk of default.

Note 26: Administered financial instruments (continued)

Note 26G: Liquidity risk

The Treasury's administered financial liabilities are promissory notes grant liabilities the IMF SDR allocation and HIH and HLIC provisions. The contractual guarantee service obligation arising from the guarantee scheme for large deposits and wholesale funding and State and Territory borrowing are not included as there are no liquidity risks associated with these items. They are contingent on the value of the associated contractual fee receivable. The exposure to liquidity risk is based on the notion that the Treasury will encounter difficulty in meeting its obligations associated with administered financial liabilities. This is highly unlikely due to appropriation funding through special appropriations and non-lapsing capital appropriations as well as internal policies and procedures put in place to ensure there are appropriate resources for the Treasury to meet its financial obligations.
The following tables illustrate the maturities for financial liabilities:

	On demand $'000	**Within 1 year $'000**	**1 to 2 years $'000**	**2 to 5 years $'000**	**> 5 years $'000**	**Total $'000**
Promissory notes	**-**	**-**	**-**	**50,247**	**3,209,660**	**3,259,907**
Grant liabilities	**-**	**473,356**	**-**	**-**	**-**	**473,356**
IMF SDR allocation liabilities	**-**	**-**	**-**	**-**	**4,570,369**	**4,570,369**
Other payables	**974**	**-**	**-**	**-**	**-**	**974**
Other liabilities	**18,162**	**-**	**-**	**-**	**-**	**18,162**
Total	**19,136**	**473,356**	**-**	**50,247**	**7,780,029**	**8,322,768**

	On demand $'000	Within 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	> 5 years $'000	Total $'000
Promissory notes	-	-	-	-	3,851,036	3,851,036
Grant liabilities	-	884,081	-	-	-	884,081
IMF SDR allocation liabilities	-	-	-	-	4,585,323	4,585,323
Other payables	3,987	-	-	-	-	3,987
Other liabilities	21,773	-	-	-	-	21,773
Total	25,760	884,081	-	-	8,436,359	9,346,200

Note 26: Administered financial instruments (continued)

Note 26H: Market risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Treasury is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in foreign currency.

The Treasury is exposed to foreign currency denominated in USD, EUR and SDR.

The following table details the effect on profit and equity as at 30 June 2012 from a 15 per cent (30 June 2011 from a 15 per cent) favourable/unfavourable change in AUD against the Treasury with all other variables held constant.

Sensitivity analysis of the risk that the entity is exposed to for 2012

		Effect on	
	Change in risk variable	**Profit and loss 2012**	**Equity 2012**
Risk Variable	%	**$'000**	**$'000**
IFI Investments	15	**(84,728)**	**(84,728)**
IFI investments	(15)	**114,632**	**114,632**
IMF related moneys owing	15	**(36)**	**(36)**
IMF related moneys owing	(15)	**49**	**49**
IMF new arrangements to borrow loan	15	**(86,235)**	**(86,235)**
IMF new arrangements to borrow loan	(15)	**116,670**	**116,670**
Quota	15	**(625,762)**	**(625,762)**
Quota	(15)	**846,619**	**846,619**
Promissory notes	15	**5,684**	**5,684**
Promissory notes	(15)	**(7,690)**	**(7,690)**
IMF allocation liability	15	**596,135**	**596,135**
IMF allocation liability	(15)	**(806,536)**	**(806,536)**
Other liabilities	15	**127**	**127**
Other liabilities	(15)	**(172)**	**(172)**

Sensitivity analysis of the risk that the entity is exposed to for 2011

		Effect on	
	Change in Risk variable	Profit and loss 2011	Equity 2011
Risk Variable	%	$'000	$'000
IFI Investments	15	(73,772)	(73,772)
IFI investments	(15)	99,809	99,809
IMF related moneys owing	15	(124)	(124)
IMF related moneys owing	(15)	168	168
IMF new arrangements to borrow loan	15	(29,272)	(29,272)
IMF new arrangements to borrow loan	(15)	39,604	39,604
Quota	15	(627,810)	(627,810)
Quota	(15)	849,389	849,389
Promissory notes	15	5,394	5,394
Promissory notes	(15)	(7,297)	(7,297)
IMF allocation liability	15	598,086	598,086
IMF allocation liability	(15)	(809,175)	(809,175)
Other liabilities	15	519	519
Other liabilities	(15)	(703)	(703)

Note 27: Administered financial assets reconciliation

Financial assets	Notes	2012 $'000	2011 $'000
Total financial assets per administered schedule of assets and liabilities		**15,157,084**	14,311,226
Less: non-financial instrument components			
GST receivable		**(52)**	-
Total non-financial instrument components		**(52)**	-
Total financial assets as per financial instruments note	26A	**15,157,032**	14,311,226

Note 28: Appropriations

Note 28A: Annual appropriations ('Recoverable GST exclusive')

	2012 Appropriations							Appropriation applied in 2012 (current and prior years)	Variance
	Appropriation Act			*FMA Act*					
	Annual Appropriation	Appropriations reduced[a]	AFM[b]	Section 30	Section 31	Section 32	Total appropriation		
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
DEPARTMENTAL									
Ordinary annual services	**161,230**	**(5,730)**	**-**	**-**	**11,317**	**1,115**	**167,932**	**(191,500)**	**(23,568)**
Other services									
Equity	**583**	**-**	**-**	**-**	**-**	**-**	**583**	**(583)**	**-**
Loans	-	-	-	-	-	-	-	-	-
Total departmental	**161,813**	**(5,730)**	**-**	**-**	**11,317**	**1,115**	**168,515**	**(192,083)**	**(23,568)**
ADMINISTERED									
Ordinary annual services									
Administered items	**18,687**	**-**	**-**	**-**	**-**	**-**	**18,687**	**(12,741)**	**5, 946**
Payments to CAC Act bodies	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**
Other services									
States, ACT, NT and Local government	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New administered outcomes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Administered assets and liabilities	**62,708**	**(60,571)**	**-**	**-**	**-**	**-**	**2,137**	**(15,561)**	**(13,424)**
Payments to CAC Act bodies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total administered	**81,395**	**(60,571)**	**-**	**-**	**-**	**-**	**20,824**	**(28,302)**	**(7,478)**

Notes:

(a) Appropriation Acts (Nos. 1, 3) 2011-12: sections 10, 11, 12 and 15. Appropriation Acts (Nos. 2, 4) 2011-12: sections 13 and 14. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request that the Finance Minister reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. On 26 June 2012, the Finance Minister issued a determination to reduce departmental appropriation following a request by the Minister. The amount of the reduction under Appropriation Act (No.1) was $5,729,267.00.

As with departmental appropriations, the responsible Minister may decide that part or all of an administered appropriation is not required and request that the Finance Minister reduce that appropriation. For administered appropriations reduced under section 11 of Appropriation Acts (Nos, 1, 3) 2011-12 and section 12 of Appropriation Acts (Nos. 2, 4) 2011-12, the appropriation is taken to be reduced to the required amount specified in Note 28G once the annual report is tabled in Parliament. All administered appropriations may be adjusted by a Finance Minister’s determination, which is disallowable by Parliament. On 26 June 2012, the Finance Minister issued a determination to reduce administered appropriations following a request by the Minister. The amount of the reduction under the Appropriation Acts (nos. 2, 4) was $60,571,841.29.

(b) Advance to the Finance Minister (AFM) — Appropriation Acts (No. 1, 3) 2011-12: section 13 and Appropriation Acts (No. 2, 4) 201: section 15.

Note: the variance associated with the Departmental ordinary annual services was the result of voluntary redundancies paid during 2011-12 and higher than expected capital purchases.

Note 28: Appropriations (continued)

	2011 Appropriations							Appropriation applied in 2011 (current and prior years)	Variance
	Appropriation Act			*FMA Act*					
	Annual Appropriation	Appropriations reduced[(a)]	AFM[(b)]	Section 30	Section 31	Section 32	Total appropriation		
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
DEPARTMENTAL									
Ordinary annual services	169,592	(926)			8,370	(938)	176,098	(173,426)	2,672
Other services									
Equity	1,395				n/a		1,395	(1,395)	-
Total departmental	170,987	(926)	-	-	8,370	(938)	177,493	(174,821)	2,672
ADMINISTERED									
Ordinary annual services									
Administered items	47, 778	(31, 862)			n/a		15,916	(14,880)	1, 036
Other services									
States, ACT, NT and Local government				-	n/a	-	-		-
New administered outcomes	-	-	-	-	n/a	-	-	-	-
Administered assets and liabilities	162, 265	-	-	-	n/a	-	162,265	(4,079)	158,186
Total administered	210, 043	(31, 862)	-	-	-	-	178,181	(18,959)	159,222

Notes:

(a) Appropriations reduced under Appropriation Acts (Nos. 1,3) 2010-11: sections 10, 11 and 12 and under Appropriation Acts (Nos. 2,4) 2010-11: sections 12, 13 and 14. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. On 15 April 2011, the Finance Minister determined a reduction in departmental appropriations following a request by the Treasurer. The amount of reduction determined under Appropriation Act (No.3) 2010-11 was $926,000.

As with departmental appropriations, the responsible Minister may decide that part or all of an administered appropriation is not required and request that the Finance Minister reduce that appropriation. For administered appropriations reduced under section 11 of Appropriation Acts (Nos, 1, 3) 2010-11 and section 12 of Appropriation Acts (Nos. 2, 4) 2010-11, the appropriation is taken to be reduced to the required amount specified in Note 28G once the annual report is tabled in Parliament. All administered appropriations may be adjusted by a Finance Minister’s determination, which is disallowable by Parliament. On 15 April 2011, the Finance Minister issued a determination to reduce administered appropriations following a request by the Minister. The amount of the reduction under the Appropriation Acts (nos. 2, 4) was $31,862,246.43.

(b) Advance to the Finance Minister (AFM) — Appropriation Acts (No. 1, 3) 2010-11: section 13 and Appropriation Acts (No. 2, 4) 2010: section 15.

Note 28: Appropriations (continued)

Note 28B: Departmental and Administered Capital Budgets ('Recoverable GST exclusive')

	2011-12 Capital Budget Appropriations				Capital Budget Appropriations applied in 2011-12 (current and prior years)			
	Appropriation Act		*FMA Act*					
	Annual Capital Budget $'000	Appropriations reduced[b] $'000	Section 32 $'000	Total Capital Budget Appropriations $'001	Payments for non-financial assets[c] $'000	Payments for other purposes $'000	Total payments $'000	Variance $'000
DEPARTMENTAL								
Ordinary annual services								
Capital Budget[a]	**6,485**	**-**	**-**	**6,485**	**6,724**	**-**	**6,724**	**(239)**
ADMINISTERED								
Ordinary annual services								
Capital Budget(a)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Notes:

(a) Departmental and Administered Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriation, please see Table A: Annual appropriations

(b) Appropriations reduced under Appropriation Acts (No. 1,3,5) 2011-12: sections 10,11,12 and 15 or via a determination by the Finance Minister

(c) Payments made on non-financial assets include purchase of assets, expenditure on assets which has been capitalised, costs incurred to make good an asset to its original condition, and the capital repayment component of finance leases.

Note 28: Appropriations (continued)

	2010-11 Capital Budget Appropriations				Capital Budget Appropriations applied in 2010-11 (current and prior years)			
	Appropriation Act		*FMA Act*					
	Annual Capital Budget	Appropriations reduced[(b)]	Section 32	Total Capital Budget Appropriations	Payments for non-financial assets[(c)]	Payments for other purposes	Total payments	Variance
	$'000	$'000	$'000	$'001	$'000	$'000	$'000	$'000
DEPARTMENTAL								
Ordinary annual services								
Capital Budget[(a)]	6,462	-	-	6,462	6,223	-	6,223	239
ADMINISTERED								
Ordinary annual services								
Capital Budget[(a)]	-	-	-	-	-	-	-	-

Notes:

(a) Departmental and Administered Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services and are no separately identified in the Appropriation Acts. For more information on ordinary annual services appropriation, please see Table A: Annual appropriations

(b) Appropriations reduced under Appropriation Acts (No. 1,3,5) 2011-12: sections 10,11,12 and 15 or via a determination by the Finance Minister

(c) Payments made on non-financial assets include purchase of assets, expenditure on assets which has been capitalised, costs incurred to make good an asset to its original condition, and the capital repayment component of finance leases.

Note 28: Appropriations (continued)

Note 28C: Unspent annual appropriations ('Recoverable GST exclusive')

Authority	2012 $'000	2011 $'000
Cash held	**1,108**	836
Appropriation Act (No. 1) 2008-09	**578**	578
Appropriation Act (No. 1) 2009-10	**-**	-
Appropriation Act (No. 1) 2010-11	**-**	71,586
Appropriation Act (No. 1) 2011-12	**42,954**	-
Appropriation Act (No. 3) 2011-12	**4,158**	-
Total unspent departmental annual appropriations	**50,810**	75,011

Authority	2012 $'000	2011 $'000
Appropriation Act (No. 2) 2004-05	**-**	668
Appropriation Act (No. 2) 2006-07	**-**	62
Appropriation Act (No. 2) 2007-08	**-**	27,674
Appropriation Act (No. 4) 2006-07	**-**	14,068
Appropriation Act (No. 4) 2008-09	**-**	3,996
Appropriation Act (No. 2) 2008-09	**-**	14,103
Appropriation Act (No. 2) 2009-10	**18,508**	18,508
Appropriation Act (No. 2) 2010-11	**143,336**	158,186
Appropriation Act (No. 1) 2010-11	**-**	7,005
Appropriation Act (No. 3) 2010-11	**-**	16,493
Appropriation Act (No. 2) 2011-12	**61,997**	-
Appropriation Act (No. 3) 2011-12	**3,281**	-
Total unspent administered annual appropriations	**227,122**	260,763

Note 28:Appropriations (continued)

Note 28D: Special appropriations ('Recoverable GST exclusive')

The following table lists current special appropriations contained in legislation that the Treasury is responsible for administering. In 2010-11, the Treasury expanded the list to include special appropriations contained in legislation that are inactive but still current as at 30 June 2011

The Treasury process to complete the 2010-11 financial statements identified 8 payments (2010: 6 payments) made from the COAG Reform Fund special account that resulted in technical breaches of Section 83 of the Constitution (refer to Note 26 for more information).

After reviewing the circumstances of Section 83 breaches in relation to the COAG Reform Fund special account, the Treasury considers that there is a risk of non-compliance with Section 83 of the Constitution where payments are made from special appropriations and special accounts in circumstances where the payments do not accord with conditions included in the relevant legislation.

The Treasury will investigate these circumstances and any impact on its special appropriations and special accounts shown below, seeking legal advice as appropriate.

			Appropriation applied	
			2012	2011
Authority	**Type**	**Purpose**	**$'000**	$'000
Asian Development Bank (Additional Subscription) Act 2009 (Administered)	Limited	To provide an appropriation for subscription Act 2009 payments to the ADB. The balance available (Administered) is USD$4,742,173,913.5 in callable shares and USD$181,781,020.18 in paid-in shares.	**(14,812)**	(18,687)
Federal Financial Relations Act 2009 (Administered)	Unlimited Amount	To provide an appropriation for payments of financial assistance to the States, the ACT and the NT.	**(65,685,936)**	(63,441,516)
International Monetary Agreements Act 1947 (Administered)	Unlimited Amount	To provide an appropriation for redemption of securities by the IMF.	**(291,567)**	(315,051)
International Monetary Agreements Act 1947 (Administered)	Unlimited Amount	To provide appropriation for Australia's obligations as a participant in the IMF's New Arrangements to Borrow.	**(444,619)**	(225,137)
International Monetary Agreements Act 1947 (Administered)	Unlimited Amount	To provide an appropriation for the payment of charges on Special Drawing Rights issued to Australia by the IMF.	**(14,274)**	(16,965)
International Monetary Agreements Act 1947 (Administered)	Limited Amount	To provide an appropriation for Australia's purchase of additional shares in the International Bank for Reconstruction and Development. Balance available is USD$859,886,280.	**(12,171)**	-

Note 28:Appropriations (continued)

Note 28D: Special appropriations ('Recoverable GST exclusive')

Authority	Type	Purpose	Appropriation applied 2012 $'000	2011 $'000
Commonwealth Places (Mirror Taxes) Act 1998	Unlimited Amount	To provide an appropriation for the purpose of paying compensation to the States in respect of constitutionally invalid States levied on Commonwealth Places	**(466,870)**	(424,285)
Superannuation Industry (Supervision) Act 1993 (Administered)	Unlimited Amount	To provide an appropriation for financial assistance to superannuation funds that have suffered an eligible loss as a result of fraudulent conduct or theft.	**-**	(54,994)
Car Dealership Financing Guarantee Appropriation Act 2009 (Administered)	Unlimited Amount	To provide an appropriation for claims under Act 2009 the Deed of Guarantee in respect of the (Administered) Australian Government guarantee to support interim funding to car dealerships.	**-**	(4,922)
Clean Energy Act 2011	Unlimited Amount	Provides a mechanism to deal with climate change by encouraging the use of clean energy.	**-**	-
International Monetary Agreements Act 1947 (Administered)	Unlimited Amount	To provide an appropriation for Special Drawing Rights sold by the RBA to the Commonwealth.	**-**	-
International Monetary Agreements Act 1947 (Administered)	Unlimited Amount	To provide an appropriation for Australia's obligations as a participant in the IMF's Special Drawing Rights Department.	**-**	-
International Monetary Agreements Act 1947 (Administered)	Unlimited Amount	To provide an appropriation for Australia's support of the IMF's programs.	**-**	-
International Monetary Agreements Act 1947 (Administered)	Unlimited Amount	To provide an appropriation for Australia's support of the World Bank and Asian Development Banks Programs.	**-**	-
A New Tax System (Commonwealth — State Financial Arrangements Act 1999 (Administered)	Unlimited Amount	To provide an appropriation for payments to States if a State was under paid (Administered) GST revenue in the 2008-09 financial year.	**-**	-

Note 28:Appropriations (continued)

Note 28D: Special appropriations ('Recoverable GST exclusive')

			Appropriation applied	
			2012	2011
Authority	Type	Purpose	$'000	$'000
Asian Development Bank Act 1996 (Administered)	Limited Amount	To provide an appropriation for payments to establish the Bank. Balance available is USD$42,500,000 in callable shares.	-	-
Asian Development Bank Act (Additional Subscription) Act 1972 (Administered)	Limited Amount	To provide an appropriation for the additional subscription to the ADB. Balance available USD$102,000,000 in callable shares.	-	-
Asian Development Bank Act (Additional Subscription) Act 1977 (Administered)	Limited Amount	To provide an appropriation for the additional subscription to the ADB. Balance available USD$258,180,000 in callable shares.	-	-
Asian Development Bank Act (Additional Subscription) Act 1983 (Administered)	Limited Amount	To provide an appropriation for the additional subscription to the ADB. Balance available USD$498,110,000 in callable shares.	-	-
Asian Development Bank Act (Additional Subscription) Act 1995 (Administered)	Limited Amount	To provide an appropriation for the additional subscription to the ADB. Balance available USD$1,210,246,511 in callable shares.	-	-
European Bank for Reconstruction and Development Act 1990 (Administered)	Limited Amount	To provide an appropriation for payments to establish the Bank. Balance available is USD$81,690,700 in callable shares.	-	-
Financial Agreements (Commonwealth Liability) Act 1932 (Administered)	Unlimited Amount	To provide an appropriation for payment of principal and interest on bonds issued under the Financial Agreement Validation Act 1929, consolidating State debts.	-	-
Financial Services Reform Act 2001 (Administered)	Unlimited Amount	To provide an appropriation for payment of compensation in respect to levys payable by participants in particular financial markets.	-	-
Financial Services Reform Act 2001 (Administered)	Unlimited Amount	To provide an appropriation for payment of compensation in respect of a loss that is connected with a financial market.	-	-
Guarantee Scheme for Large Deposits and Wholesale Funding Appropriation Act 2008 (Administered)	Unlimited Amount	To provide an appropriation for payment of claims under the Deed of Guarantee in accordance with the Guarantee Scheme for Large Deposits and Wholesale Funding	-	-

Note 28:Appropriations (continued)

Note 28D: Special appropriations ('Recoverable GST exclusive')

			Appropriation applied	
			2012	2011
Authority	**Type**	**Purpose**	**$'000**	$'000
Guarantee of State and Territory Borrowing Appropriation Act 2008 (Administered)	Unlimited Amount	To provide an appropriation for payment of claims under the Deed of Guarantee in accordance with the Guarantee of State and Territory Borrowing.	**-**	-
Housing Loans Insurance Corporation (Transfer of Assets and Abolition) Act 1996 (Administered)	Unlimited Amount	To provide an appropriation for payments of claims made before the transfer period leading to the abolition of the HLIC.	**-**	-
International Bank for Reconstruction and Development (Share Increase) Act 1988 (Administered)	Limited Amount	To provide an appropriation for the purchase of additional shares in the IBRD.	**-**	-
International Bank for Reconstruction and Development (General Capital Increase) Act 1989 (Administered)	Limited Amount	To provide an appropriation for the purchase of additional shares in the IBRD.	**-**	-
International Finance Corporation Act 1955 (Administered)	Limited Amount	To provide an appropriation for the subscription to the capital stock of the IFC.	**-**	-
International Finance Institutions (Share Increase) Act 1982 (Administered)	Limited Amount	To provide an appropriation for the purchase of additional shares in the IFC and the IBRD. Balance available is USD$692,927,440 in callable shares.	**-**	-
International Finance Institutions (Share Increase) Act 1986 (Administered)	Limited Amount	To provide an appropriation for the purchase of additional shares in The IFC and the IBRD.	**-**	-
International Monetary Agreements Act 1959 (Administered)	Limited Amount	To provide an appropriation for the increase in Australia's quota in the IMF and increase in Australia's capital stock in the IBRD.		
International Monetary Agreements Act 1960 (Administered)	Limited Amount	To provide an appropriation for the increase in Australia's quota in the IMF and increase in Australia's capital stock in the IBRD.	**-**	-
International Monetary Agreements Act 1965 (Administered)	Limited Amount	To provide an appropriation for the increase in Australia's quota in the IMF.	-	-

Note 28:Appropriations (continued)

Note 28D: Special appropriations ('Recoverable GST exclusive')

Authority	Type	Purpose	Appropriation applied 2012 $'000	2011 $'000
International Monetary Agreements Act 1970 (Administered)	Limited Amount	To provide an appropriation for the increase in Australia's quota in the IMF.	-	-
International Monetary Agreements Act 1974 (Administered)	Limited Amount	To provide an appropriation for payments to the IBRD. Balance available is USD$37,368,120 in callable shares.	-	-
International Monetary Fund (Quota Increase) Act 1983 (Administered)	Limited Amount	To provide an appropriation for the increase in Australia's quota in the IMF.	-	-
International Monetary Fund (Quota Increase and Agreements Amendments) Act 1991 (Administered)	Unlimited Amount	To provide an appropriation for the increase in Australia's quota in the IMF.	-	-
Multilateral Investment Guarantee Agency Act 1997 (Administered)	Limited Amount	To provide an appropriation for payments to establish the Agency. Balance available is USD$14,827,728 in callable shares.	-	-
Papua New Guinea Loans Guarantee Act 1975 (Administered)	Limited Amount	To provide an appropriation for Australia's guarantee of certain public loans raised by Papua New Guinea. Balance available is AUD$3,530,000.	-	-
Papua New Guinea Loan (International Bank) Act 1970 (Administered)	Limited Amount	To provide an appropriation for Australia's guarantee of the loan to Papua New Guinea by the IBRD. Balance available is $1,365,000.	-	-
Papua New Guinea Loan (International Bank) Act 1970 (Administered)	Limited Amount	To provide an appropriation for Australia's guarantee of the loan to Papua New Guinea by the IBRD.	-	-
Payment of Tax Receipts (Victoria) Act 1996 (Administered)	Unlimited Amount	To provide an appropriation for payments to Victoria for certain taxes collected by the Australian Government of Victoria's behalf.	-	-
State Grants Act 1927 (Administered)	Unlimited Amount	To provide an appropriation for the distribution of surplus revenue to the States.	-	-

Note 28:Appropriations (continued)

Note 28D: Special appropriations ('Recoverable GST exclusive')

Authority	Type	Purpose	Appropriation applied 2012 $'000	Appropriation applied 2011 $'000
States (Work and Housing) Assistance Act 1984 (Administered)	Unlimited Amount	To provide an appropriation for financial assistance to the States in connection with expenditure on Public Housing.	-	-
States (Work and Housing) Assistance Act 1988 (Administered)	Unlimited Amount	To provide an appropriation for financial assistance to the States in connection with expenditure on Public Housing.	-	-
Terrorism Insurance Act 2003 (Administered)	Unlimited Amount	To provide an appropriation for payments to the Australian Reinsurance Pool Corporation.	-	-
Terrorism Insurance Act 2003 (Administered)	Unlimited Amount	To provide an appropriation for payments of compensation in the acquisition of land.	-	-
Total			(66,930,249)	(64,501,557)

Note 28: Appropriations (continued)

Note 28E: Disclosure by agent in relation to annual and special appropriations ('Recoverable GST exclusive')

2012	Department of Education, Employment and Workplace Relations National Partnership Payments and Assistance to States and Territories for Non-Government Schools $'000	Inspector General of Taxation Transaction service provider $'000
Total receipts	**8,569,820**	**2,361**
Total payments	**8,569,820**	**2,344**

2011	Department of Education, Employment and Workplace Relations National Partnership Payments and Assistance to States and Territories for Non-Government Schools $'000	Inspector General of Taxation Transaction service provider $'000
Total receipts	9,653,561	2,192
Total payments	9,653,561	2,213

Note 28: Appropriations (continued)

Note 28F: Reduction in administered Items ('Recoverable GST exclusive')

2011-12	Amount required[3] — by Appropriation Act			Total amount required[3]	Total amount appropriated[4]	Total reduction[5]
Ordinary Annual Services	**Act (No.1)**	**Act (No.3)**	**Act (No. 5)**			
Outcome 1	**13,800,581.04**	**-**	**-**	**13,800,581.04**	**18,687,000.00**	**4,886,418.96**

2010-11	Amount required[3] — by Appropriation Act			Total amount required[3]	Total amount appropriated[4]	Total reduction[5]
Ordinary Annual Services	**Act (No.1)**	**Act (No.3)**	**Act (No. 5)**			
Outcome 1	15,915,753.57	-	-	15,915,753.57	47,778,000.00	31,862,246.43

Notes:

1. Numbers in this section of the table must be disclosed to the cent.
2. Administered items for 2011-12 were reduced to these amounts when these financial statements were tabled in Parliament as part of the department's 2011-12 annual report. This reduction is effective in 2012-13, but the amounts are reflected in Table A in the 2010-11 financial statements in the column 'Appropriations reduced' as they are adjustments to 2011-12 appropriations.
3. Amount required as per Appropriation Act (Act 1 s. 11; Act 2 s. 12).
4. Total amount appropriated in 2011-12.
5. Total reduction effective in 2012-13.

Note 29: Compliance with statutory conditions for payments from the Consolidated Revenue Fund

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance and Deregulation provided information to all agencies in 2011 regarding the need for risk assessments in relation to compliance with statutory conditions on payments from special appropriations, including special accounts. Treasury identified several breaches in 2010-11 and these were reported in the notes to the 2010-11 financial statements. Treasury undertook to investigate the issue during 2011-12.

During 2011-12, the Treasury developed a plan to review exposure to risks of not complying with statutory conditions on payments from appropriations. The plan involved:

- identifying each special appropriation and special account;
- determining the risk of non-compliance by assessing the difficulty of administering the statutory conditions and assessing the extent to which existing payment systems and processes satisfy those conditions;
- determining procedures to confirm risk assessments in medium risk cases and to quantify the extent of non-compliance, if any, in higher risk situations;
- obtaining legal advice as appropriate to resolve questions of potential non-compliance; and
- considering legislative or procedural changes to reduce the risk of non-compliance in the future to an acceptably low level.

The Treasury identified 7 appropriations involving statutory conditions for payment, comprising:

- 6 special appropriations; and
- 1 special account.

As at 30 June 2012 this work had been completed in respect of all appropriations with statutory conditions. 3 groups of payments totalling $4,320,123 (total payments for all special accounts and appropriations in 2011-12 was $87,938,199,311) were identified as potential breaches pending legal advice.

The work conducted to date has identified:

- no payments were made without legal authority and are in contravention of section 83 of the Constitution (8 payments totalling $25,963,775 in 2010-11);
- amounts for which recovery or offset against a later payment has occurred is nil ($25,963,775 payments in 2010-11); and
- 3 groups of payments totalling $4,320,123 are subject to pending legal advice to determine whether contraventions of section 83 exist.

Note 29: Compliance with statutory conditions for payments from the Consolidated Revenue Fund (continued)

In order to reduce the risks of non-compliance to an acceptably low level, changes were made to the Intergovernmental Agreement on Federal Financial Relations (the IGA). The changes to the IGA mean payments made in good faith that are found to be erroneous do not result in breaches of section 83.

The next stage of the plan is to develop and implement continuous verification processes that will detect possible s83 breach payments. This verification process will include:

- ensuring payments are made in-line with the purpose and conditions of the relevant legislation; and
- analysing payments to identify duplication and offsetting amounts.

Note 29: Compliance with statutory conditions for payments from the Consolidated Revenue Fund (continued)

Appropriations	Payment amount 2011-12 $'000	Review complete?	Breaches identified				Potential breaches to date yet to be resolved		Remedial action taken or proposed
Special appropriations			**Number**	**Total $'000**	**Incorrect $'000**	**Recovered /offset as at 30 June 2012**	**Yes/No**	**Indicative extent**	
International Monetary Agreements Act 1947 s7	291,567	Yes	-	-	-	-	N/A	N/A	N/A
International Monetary Agreements Act 1947 s8	14,274	Yes	-	-	-	-	N/A	N/A	N/A
International Monetary Agreements Act 1947 s8B	444,619	Yes	-	-	-	-	N/A	N/A	N/A
International Monetary Agreements Act 1947 s9	12,172	Yes	-	-	-	-	N/A	N/A	N/A
Asian Development Bank (Additional Subscription) Act 2009	14,812	Yes	-	-	-	-	N/A	N/A	N/A
Federal Financial Relations Act 2009	65,685,936	Yes	-	-	-	-	N/A	N/A	N/A
Special accounts									
COAG Reform Fund Act 2008	21,474,820	Yes	-	-	-	-	Yes	3 groups of payments totalling $4,320	Awaiting legal advice

Note 29: Compliance with statutory conditions for payments from the Consolidated Revenue Fund (continued)

2011-12 payments pending legal advice		
Portfolio	**Payment Details**	**Amount ($)**
Department of Agriculture, Fisheries and Forestry	Exotic Disease Preparedness — several payments	38,661
Department of Agriculture, Fisheries and Forestry	Plant Eradication — several payments	409,017
Department of Education, Employment and Workplace Relations	Literacy and Numeracy — several payments	3,872,445
	Total	**4,320,123**

2010-11 payments without legal authority		
Portfolio	**Payment Details**	**Amount ($)**
Department of Education, Employment and Workplace Relations	Better TAFE Facilities — 2 payments	9,225
Department of Health and Ageing	Health Services	136,000
Department of Infrastructure and Transport	Fort Street High School	3,000,000
Department of Sustainability, Environment, Water, Population and Communities	Water for the Future — 2 payments	2,142,800
Department of Education, Employment and Workplace Relations	Trade Training Centres — 2 payments	20,675,750
	Total	**25,963,775**

Note 30: Special accounts and FMA Act Section 39

Note 30A: Special accounts ('Recoverable GST exclusive')

	Actuarial Services Special Account[1]		COAG Reform Fund Special Account[2]	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Balance brought forward from previous period	**2,149**	2,223	**-**	-
Appropriation for reporting period	**-**	-	**18,247,153**	17,065,350
Other receipts from rendering of services	**1,842**	1,501	**-**	-
Receipts from other agencies	**-**	-	**3,227,667**	1,337,197
Total increase	**3,991**	3,724	**21,474,820**	18,402,547
Available for payments	**3,991**	3,724	**-**	-
Decreases:				
Departmental				
Payments made to employees	**(1,316)**	(1,202)	**-**	-
Payments made to suppliers	**(393)**	(373)	**-**	-
Total Departmental decreases	**(1,709)**	(1,575)	**-**	-
Administered				
Payments made to suppliers	**-**	-	**(21,474 820)**	(18,402 547)
Repayments debited from the Special Account	**-**	-	**-**	-
Repayments debited from the Special Account (FMA Act section 39)	**-**	-	**-**	-
Total Administered decreases	**-**	-	**(21,474 820)**	(18,402 547)
Total decrease	**(1,709)**	(1,575)	**(21,474,820)**	(18,402,547)
Total balance carried to the next period	**2,282**	2,149	**-**	-

1 Legal authority: Financial Management and Accountability Act 1997; s20
Purpose: providing actuarial services and advice
Note: Actuarial Services Special Account was established on 1 October 2006.

2 Legal authority: COAG Reform Fund Act 2008
Appropriations: Financial Management and Accountability Act 1997; section 21
Purpose: For the making of grants of financial assistance to the States and Territories.
Note: The Treasury makes payments to the States and Territories from the COAG Reform Fund special account based on information provided by other Government departments that have policy and program implementation responsibility. Some payments have been found to have breached s83 of the Constitution. See note 29 for more details.

Note 30: Special accounts and FMA Act Section 39 (continued)

Financial System Stability Special Account (Administered)

The Treasury's 'Financial System Stability' special account established under section 70E of the *Banking Act 1959* for the making of payments authorised under specified sections of the *Banking Act 1959*, the *Insurance Act 1973* and the *Life Insurance Act 1975* and to meet expenses of administering the special account. For the years ended 30 June 2011 and 30 June 2012 this special account had nil balances and no transactions were credited or debited to the account

Services for other Governments and non agency bodies account (Departmental)

The Treasury's 'Services for other Governments and non-agency bodies' special account established under section 20 of the *Financial Management and Accountability Act 1997* (FMA Act) was abolished on 12 October 2010. For the years ended 30 June 2011 and 30 June 2012 this special account had nil balances and no transactions were credited or debited to the account.

Other trust moneys account (Departmental — Special Public Money)

The Treasury has an 'Other trust monies' special account established under section 20 of the FMA Act. The purpose of this special account is for expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Australian Government. Any money held is thus special public money under section 16 of the FMA Act. For the years ended 30 June 2011 and 30 June 2012 this special account had nil balances and no transactions were credited or debited to the account.

Other trust moneys account (Administered — Special Public Money)

The Treasury has an 'Other trust monies' special account established under section 20 of the FMA Act. The purpose of this special account is for expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Australian Government. Any money held is thus special public money under section 16 of the FMA Act. This account was abolished on 26 June 2012.

For the year ended 30 June 2012 the balance of the account was zero. For the year ended 30 June 2011 this special account had nil balances and no transactions were credited or debited to the account.

Special Accounts investment of public money

For the periods 2010-11 and 2011-12, the Treasury has not used section 28 or 39 of the FMA Act in respect of all special accounts.

Services for Other Entities and Trust Money Special Account

On 26 June 2012 the *Services for Other Entities and Trust Money Special Account* was established under the section 20 of the FMA Act. The purpose of the account is to hold and expend amounts on behalf of persons or entities other than the Commonwealth.

There were no transactions on the account during the 2011-12 financial year, the balance of the account is nil.

Note 31: Compensation and debt relief

	2012	2011
	$	$
Departmental		
No 'Act of Grace' expenses were incurred during the reporting period (2011: No expenses).	**-**	-
No waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the Financial Management and Accountability Act 1997.(2011: No waiver)	**-**	-
No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period. (2011: No payments)	**-**	-
No ex-gratia payments were provided for during the reporting period. (2011: No payments).	**-**	-
No payments were provided in special circumstances relating to APS employment pursuant to section 73 of the Public Service Act 1999 (PS Act) during the reporting period. (2011: No payments).	**-**	-
Administered		
No 'Act of Grace' expenses were incurred during the reporting period (2011: No expenses).	-	-
No waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the Financial Management and Accountability Act 1997.(2011: No waivers)	-	-
No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period. (2011: No payments)	-	-
No ex-gratia payments were provided for during the reporting period. (2011: No payments).	-	-
No payments were provided in special circumstances relating to APS employment pursuant to section 73 of the Public Service Act 1999 (PS Act) during the reporting period. (2011: No payments).	-	-

Note 32: Reporting of outcomes

Note 32A: Net cost of outcome delivery

	Outcome 1	
	2012	2011
	$'000	$'000
Departmental		
Expenses	**192,838**	177,767
Own-source income	**9,731**	9,920
Administered		
Expenses	**86,868,463**	86,961,136
Own-source income	**5,252,242**	3,306,709
Net cost/(contribution) of outcome delivery	**81,799,328**	83,822,274

Note 33: Net cash appropriation arrangements

	2012	2011
	$'000	$'000
Total comprehensive income (loss) less depreciation/amortisation expenses previously funded through revenue appropriations and other comprehensive income[1]	**(11,570)**	2,436
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	**(13,418)**	(12,015)
Plus: other comprehensive income/(loss)	**(60)**	-
Total comprehensive income (loss) — as per the Statement of Comprehensive Income	**(25,048)**	(9,579)

1. From 2010-11, the Government introduced net cash appropriation arrangements, where revenue appropriations for depreciation/amortisation expenses ceased. Entities now receive a separate capital budget provided through equity appropriations. Capital budgets are to be appropriated in the period when cash payment for capital expenditure is required.

PART **FIVE**

APPENDICES

WORK HEALTH AND SAFETY

The *Work Health and Safety Act 2011* (WHS Act) came into effect on 1 January 2012, replacing the previous *Occupational Health and Safety Act 1991*. The WHS Act requires Commonwealth agencies to provide and maintain a safe and healthy work environment for all workers, contractors and other persons at work. The new legislation emphasises the health and safety responsibilities of all people at work. The Treasury promotes prevention, early intervention and education through its health, safety and wellbeing systems, policies and programs. The Treasury actively encourages employees to contribute to a safer workplace by reporting potential hazards, incidents and accidents as soon as they occur, being sensible about their actions in the workplace and demonstrating the Treasury People Values at all times.

In preparation for the implementation of the WHS Act, the Treasury organised briefings to its portfolio agency heads through a national legal firm with expertise in the new legislation. A Work Health and Safety Awareness week was held in December 2011 to provide employees with information about the new legislation and actions they could take to meet their duties under the WHS Act. Tailored seminars were also provided to external contractors used by the Treasury and office holders such as Health and Safety Representatives.

To assist officers in exercising due diligence in accordance with the WHS Act, the Treasury undertook a consultative process with internal business groups to determine a comprehensive risk profile for Work Health and Safety hazards and their associated risks. Risk registers were developed and a system implemented to continuously review and update the registers which are confirmed by the Work Health and Safety Committee.

The Terms of Reference for the Work Health and Safety Committee were reviewed to allow for a strategic focus on WHS risks.

The Treasury continues to explore and implement strategies to help minimise the human and financial costs of injury and illness. Case management presents issues that are complex and varied and that need to be managed with regard to revised legislation and internal policies. In 2011-12 the Treasury offered flexible arrangements that benefited both the department and injured or ill employees by supporting them to manage their illness or injury appropriately to remain at work. Potential compensation claims and loss of productivity were reduced through the Treasury Early Intervention Policy which assisted employees to access treatment for illness and injury likely to impact them while at work.

As a signatory to Comcare's Employer Statement of Commitment, the Treasury continued to observe the Occupational Health and Safety and Rehabilitation Performance Improvement Targets (2002-2012) and maintained a low workers' compensation claim rate through the application of early intervention strategies aimed at minimising the of injury or illness on both the employee and the department. The Treasury's 2010-11 Comcare premium rate was revised from 0.61 per cent to 0.59 per cent and was maintained at 0.59 per cent for 2011-12. The Treasury's Comcare premium rate has consistently remained lower than the Commonwealth average of 1.20 per cent and 1.41 per cent respectively.

Under Section 74 of the *Occupational Health and Safety Act 1991* (OHS Act), the Treasury is required to provide a report on occupational health and safety activities and statistics on notifiable accidents, dangerous occurrences, investigations and notices under Section 68 occurring while the OHS Act was legally enforceable.

Occupational Health and Safety Act 1991	Number
Deaths that required notice under section 68	0
Accidents that required notice under section 68	0
Dangerous Occurrences that required notification under section 68	3
Investigations conducted under Part 4	0
Tests on plant, substance, or thing in the course of investigations considered	0
Directions given to The Treasury under section 45 (that the workplace etc. not be disturbed)	0
Notices given to The Treasury under section 29 (provisional improvement notice)	0
Notices given to The Treasury under section 46 (prohibition notice)	0
Notices given to The Treasury under section 47 (improvement notice)	0

With the introduction of the *Work Health and Safety Act 2011* on 1 January 2012, the Treasury is required to provide a report on work health and safety activities and statistics on notifiable incidents, investigations and notices under Part 10 occurring on or after 1 January 2012.

Work Health and Safety Act 2011	Number
Deaths that required notice under section 38	0
Serious injury or illness that required notice under section 38	3
Dangerous incidents that required notification under section 38	2
Investigations conducted under Part 9	0
Notices given to The Treasury under section 191 (improvement notices)	0
Notices given to The Treasury under section 195 (prohibition notices)	0
Notices given to The Treasury under section 198 (non-disturbance)	0

Ongoing risk management activities within the Treasury's Health and Safety Management Arrangements included:

- Occupational Health and Safety presentations at induction demonstrating positive ergonomic workstation set-up and practices. Inductions also included information on first aid, emergency procedures, accident/incident reporting, the Treasury's Health and Wellbeing Program, lunchtime health activities, lens reimbursements, the Employee Assistance Program and the roles of the Work Health and Safety Committee and Health and Safety Representatives.
- Meetings of the Work Health and Safety Committee occurred three times in 2011-12, assisting in monitoring and reviewing health and safety measures and facilitating cooperation and communication amongst employees.
- Health and Safety Representatives conducted workplace inspections three times during 2011-12.
- Timely reporting of work-related incidents ensures immediate action is taken to rectify hazards. During 2011-12, the Treasury received 18 work-related incident reports which included trips, slips, falls, and body stressing. Of the 18 incidents, one compensation claim was submitted. In 2011-12 there were five new cases managed under the Treasury's Early Intervention Policy.
- Managers are encouraged to report absences which may be related to physical or psychological injury or illness to enable staff and managers to be supported. This includes assistance under the Treasury Early Intervention Policy.

- First aid officers are located throughout the department. Employees with underlying health conditions such as epilepsy, asthma and diabetes are encouraged to advise nearby first aid officers to ensure timely and appropriate assistance is provided.
- The Treasury offers individual workstation assessments and training on ergonomics, workstation adjustment and recommended workstation practices. A total of 46 employees were referred for external workstation assessments and approximately 70 employees received individual workstation setups conducted by trained Treasury employees during 2011-12. Workstation set-up training is offered as part of the Treasury's Health and Wellbeing Program with manual handling training also provided to employees undertaking these duties.
- Employees requiring glasses for screen-based use can be reimbursed for a portion of the cost. In 2011-12, 34 employees received reimbursement.
- Free influenza vaccinations are offered annually with 422 employees receiving the vaccination in April 2012.
- In cooperation with the Department of Finance and Deregulation, a 10 metre smoking exclusion zone has been maintained around the Treasury building.

ADVERTISING AND MARKET RESEARCH

The Treasury undertook the following advertising and marketing research in 2011-12.

Table 9: Advertising and marketing research expenditure for 2011-12

Purpose	Vendor	Cost ($)
Advertising campaign	Universal McCann	10,950,653
	Vinten Browning	865,438
	GFK Blue Moon	254,250
	Hall & Partners / Open Mind Research Group	54,480
	Media Heads	114,650
	Ethnic Communications	98,558
	Cultural Partners	2,610
Business advertising	Hall & Partners / Open Mind Research Group	37,786
	Adcorp Australia Pty Ltd	110,305
Recruitment advertising	Adcorp Australia Pty Ltd	64,364
Total		12,553,094

Note: These figures exclude GST. Payments less than $11,900 are not included in this table.

During 2011-12, the Treasury conducted two advertising campaigns.

A campaign was conducted to raise awareness and understanding of the education tax refund among eligible recipients and to alert recipients to the inclusion of school uniforms from 1 July 2011. During 2011-12, the Treasury spent $6.8 million on the campaign.

A campaign was conducted to raise community and business awareness of the relevance and benefits of the Government's package of reforms to support a competitive and sustainable banking system. During 2011-12, the Treasury spent $5.6 million on the campaign.

Further information on the advertising campaigns is in the report on Australian Government advertising that is prepared by the Department of Finance and Deregulation. The report is available at www.finance.gov.au.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

The Treasury continues to develop and incorporate strategies to improve its overall environmental performance. A review against the ANAO Better Practice Guide on Public Sector Environmental Management found that the Treasury was broadly compliant with better practice.

The Treasury undertakes annual reviews of its Environmental Management System and is progressing actions to meet its commitments under the Treasury Building Management Committee Green Improvement Agreement.

It participates in various government environmental forums and maintains industry knowledge through its membership of property and building industry groups.

ENERGY MANAGEMENT

The Treasury achieved the Energy Efficiency in Government Operations Policy target of 7,500 mega joules per person per annum for office tenant light and power for 2011-12.

The Treasury has installed movement sensors in a number of offices and meeting rooms. Similarly following a review of the operation of the air-conditioning system, the Treasury modified services and completed a full balancing of the air-conditioning system. Both of these initiatives will reduce energy usage.

RECYCLING

The Treasury recycles paper and cardboard products, which a local recycling firm collects. Classified waste paper is shredded and or pulped and paper hand towels are recycled. Waste recycling stations are provided in staff kitchens separating rubbish, organic waste and materials able to be recycled.

The Treasury also recycles toner cartridges, fluorescent tubes and batteries and collects old mobile telephones, donating them to charity.

WATER

Tenancies in the Treasury building are not metered separately for water consumption. The Treasury Building Management Committee is investigating water savings initiatives.

CARER SUPPORT

The Treasury recognises that all carers have the same rights, choices and opportunities as other Australians, regardless of age, race, gender, disability, sexuality, religious or political beliefs, cultural or linguistic heritage or differences, socioeconomic status or locality.

The Treasury's carer support framework includes:

- a non-discriminatory definition of family in the *Treasury Workplace Agreement 2011-14* recognising relatives by blood, marriage, strong traditional or ceremonial affinity and genuine domestic or household relationships;
- a range of family-friendly working arrangements such as access to information about child-care and school holiday care, access to a carer's room, access to carer's leave and accreditation as a breastfeeding friendly workplace;
- employees are able to utilise accumulated personal leave to care for sick family and household members, or a person they have caring responsibilities for. Employees may also access unpaid carer's leave to care for or support family or household members or if an unexpected family or household emergency arises;
- access to an employee assistance program. The program provides a free professional and confidential counselling service to assist staff and their immediate family members experiencing work-related or personal problems;
- onsite childcare facilities for Treasury staff in the Abacus Childcare and Education Centre which is managed by the Department of Finance and Deregulation. The centre offers 143 child care places with a total of 65 children from Treasury families in care at the centre at 30 June 2012;
- part-time and flexible working arrangements. At 30 June 2012, 11 per cent of Treasury staff worked part-time. Both male and female employees use part-time work to enable them to balance work and personal responsibilities; and
- access to job-share arrangements and home-based work which help Treasury staff to balance work and personal commitments.

GRANTS

Consistent with requirements in the Commonwealth Grant Guidelines, information on grants awarded by the Treasury during the period 1 July 2011 to 30 June 2012 is available at www.treasury.gov.au.

INFORMATION PUBLICATION SCHEME

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements.

Treasury's IPS plan can be located on the Treasury website at www.treasury.gov.au.

RESOURCE TABLES

Table 10: Summary resource statement

		Actual available appropriation 2011-12 $'000	Payments made 2011-12 $'000	Balance remaining $'000
		(a)	(b)	(a-b)
Ordinary annual services				
Departmental appropriation				
Departmental appropriation		156,615 [1]	180,183	(23,568)
s31 relevant agency receipts		13,159 [3]	13,026	133
Total departmental		169,774	193,209	(23,435)
Administered expenses				
Outcome 1		14,987 [1]	12,741	n/a
Total administered expenses		14,987	12,741	n/a
Total ordinary annual services	**A**	**184,761**	**205,950**	**n/a**
Other services				
Departmental non-operating				
Equity injections		583 [2]	583	-
Total		583	583	-
Administered non-operating				
Administered assets and liabilities				
Outcome 1		62,708 [2]	15,561	n/a
Total		62,708	15,561	n/a
Total other services	**B**	**63,291**	**16,144**	**n/a**
Total available annual appropriations (A+B)		**248,052**	**222,094**	**n/a**
Special appropriations				
Asian Development Bank (Additional Subscription) Act 2009		15,168	14,812	n/a
Federal Financial Relations Act 2009		65,627,132	65,685,936	n/a
International Monetary Agreements Act 1947		956,257	762,631	n/a
Total special appropriations	**C**	**66,598,557**	**66,463,379**	**n/a**
Total appropriations excluding Special accounts (A+B+C)		**66,846,609**	**66,685,473**	**n/a**

Table 10: Summary resource statement (continued)

		Actual available appropriation 2011-12 $'000	Payments made 2011-12 $'000	Balance remaining $'000
		(a)	(b)	(a-b)
Special accounts				
Appropriation receipts		-	-	n/a
Non-appropriation receipts to special accounts		21,578,589	21,476,529	n/a
Total special account	**D**	**21,578,589**	**21,476,529**	**n/a**
Total resourcing and payments (A+B+C+D)		**88,425,198**	**88,162,002**	**n/a**
Less receipts from other sources credited to special accounts		1,842	1,709	n/a
Total resourcing and payments for the Treasury		**88,423,356**	**88,160,293**	**n/a**

1. Appropriation Act (No. 1) 2010-11 and Appropriation Act (No. 3) 2010-11.
2. Appropriation Act (No. 2) 2010-11 and Appropriation Act (No. 4) 2010-11.
3. Receipts received under s31 of the Financial Management and Accountability Act 1997.
Note: Details of Appropriations are disclosed in Note 28 to the Financial Statements.

Table 11: Resourcing for Outcome 1

Outcome 1: Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations	Budget 2011-12 $'000 (a)	Actual expenses 2011-12 $'000 (b)	Variation $'000 (a)-(b)
Program 1.1: Department of the Treasury			
Departmental expenses			
Departmental appropriation	176,226	177,185	(959)
Special accounts	1,629	1,709	(80)
Expenses not requiring appropriation in the Budget year		13,944	(2,058)
Administered expenses			
Other services (Appropriation Bill No. 1)	11,739	11,121	618
Expenses not requiring appropriation	794,804	964,705	(169,901)
Total for Program 1.1	201,480	1,168,664	(967,184)
Program 1.2: Payments to international financial institutions			
Administered expenses			
Special Appropriations	11,532	11,289	243
Total for Program 1.2	11,532	11,289	243
Program 1.3: Support for markets and business			
Administered expenses			
Other services (Appropriation Bill No. 1)	3,248	2,717	531
Total for Program 1.3	3,248	2,717	531
Program 1.4: General revenue assistance			
Administered expenses			
Special appropriations	45,600,000	46,040,000	(440,000)
Special accounts	1,114,292	1,109,163	5,129
Total for Program 1.4	46,714,292	47,149,163	(434,871)
Program 1.5: Assistance to the States for healthcare services			
Administered expenses			
Special Appropriations	12,697,804	12,544,412	153,392
Total for Program 1.5	12,697,804	12,544,412	153,392
Program 1.6: Assistance to the States for government schools			
Administered expenses			
Special Appropriations	3,755,800	3,775,801	(20,001)
Total for Program 1.6	3,755,800	3,775,801	(20,001)

Table 11: Resourcing for Outcome 1 (continued)

	Budget expenses 2011-12 $'000 (a)	Actual expenses 2011-12 $'000 (b)	Variation $'000 (a)-(b)
Program 1.7: Assistance to the States for skills and workforce development			
Administered expenses			
Special appropriations	1,363,132	1,363,132	-
Total for Program 1.7	1,363,132	1,363,132	-
Program 1.8: Assistance to the States for disabilities services			
Administered expenses			
Special appropriations	1,204,967	1,208,688	(3,721)
Total for Program 1.8	1,204,967	1,208,688	(3,721)
Program 1.9: Assistance to the States for affordable housing			
Administered expenses			
Special appropriations	1,242,603	1,242,604	(1)
Total for Program 1.9	1,242,603	1,242,604	(1)
Program 1.10: National Partnership Payments to the States			
Administered expenses			
Special accounts	17,927,627	18,594,831	(667,204)
Total for Program 1.10	17,927,627	18,594,831	(667,204)
Outcome 1 Totals by appropriation type			
Administered expenses			
Other services (Appropriation Bill No. 1)	14,987	13,838	1,149
Special appropriations	65,875,838	66,185,926	(310,088)
Special accounts	19,041,919	19,703,994	(662,075)
Expenses not requiring appropriation	794,804	964,705	(169,901)
Departmental expenses			
Departmental appropriation	176,226	177,185	(959)
Special accounts	1,629	1,709	(80)
Expenses not requiring appropriation in the Budget year		13,944	(2,058)
Total expenses for Outcome 1	85,917,289	87,061,301	(1,144,012)
Average staffing level (number)	1,006	1,007	(1)

LIST OF REQUIREMENTS

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Outcome and program structure	Mandatory	17-20
Where outcome and program structures differ from PB Statements/PAES or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	n/a
Portfolio structure	Mandatory	18-20
Report on performance		
Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	23-105
Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	23-105
Where performance targets differ from the PBS/PAES, details of both former and new targets, and reasons for the change	Mandatory	n/a

Description	Requirement	Page/s
Narrative discussion and analysis of performance	Mandatory	23-105
Trend information	Mandatory	23-105
Significant changes in nature of principal functions/services	Suggested	23-105
Performance of purchaser/provider arrangements	If applicable, suggested	n/a
Factors, events or trends influencing departmental performance	Suggested	23-105
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Social inclusion outcomes	If applicable, mandatory	23-105
Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory	n/a
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Discussion of any significant changes from the prior year, from budget or anticipated to have a significant impact on future operations	Mandatory	15
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Significant developments in external scrutiny	Mandatory	117-123

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Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	124-137
Workforce planning, staff turnover and retention	Suggested	124-137
Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and AWAs	Suggested	126-136
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Assessment of effectiveness of assets management	If applicable, mandatory	138
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Assessment of purchasing against core policies and principles	Mandatory	139
Consultants		
The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website	Mandatory	140

Description	Requirement	Page/s
Australian National Audit Office access clauses		
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Exempt contracts		
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Financial statements	Mandatory	150-259
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Ecologically sustainable development and environmental performance (section 516A of the *Environment Protection and Biodiversity Conservation Act 1999*)	Mandatory	268
Compliance with agency's obligations under the *Carer Recognition Act 2010*	If applicable, mandatory	269
Grant programs	Mandatory	270
Disability reporting — explicit and transparent reference to agency-level information available through other reporting mechanisms	Mandatory	143-147
Information Publication Scheme statement	Mandatory	271
Correction of material errors in previous annual report	If applicable, mandatory	n/a
List of requirements	Mandatory	276-279

ABBREVIATIONS AND ACRONYMS

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ADB	Asian Development Bank
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ARPC	Australian Reinsurance Pool Corporation
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AusAID	Australian Agency for International Development
AWA	Australian Workplace Agreement
BTWG	Business Tax Working Group
CBA	Commonwealth Bank of Australia
CBOSC	Commonwealth Bank Officers' Superannuation Corporation
CEFC	Clean Energy Finance Corporation
COAG	Council of Australian Governments
CSS	Commonwealth Superannuation Scheme
EBRD	European Bank for Reconstruction and Development
EL	Executive level
FCA	Federal Court of Australia
FIRB	Foreign Investment Review Board
FMA Act	*Financial Management and Accountability Act 1997*
FMO	Finance Minister's Orders
GRA	General revenue assistance
GST	Goods and services tax
HCS	HIH Claims Support
HLIC	Housing Loans Insurance Corporation
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IGA	Intergovernmental Agreement
IMF	International Monetary Fund
IT	Information technology
KPMG	Klynveld Peat Marwick Goerdeler
MIGA	Multilateral Investment Guarantee Agency
MRRT	Minerals Resource Rent Tax

MYEFO	Mid-Year Economic and Fiscal Outlook
NDIS	National Disability Insurance Scheme
NIIS	National Injury Insurance Scheme
NP	National Partnerships
NSW	New South Wales
NZ	New Zealand
OECD	Organisation for Economic Co-operation and Development
OPA	Official Public Account
PRRT	Petroleum Resource Rent Tax
PSS	Public Sector Superannuation Scheme
PSSap	Public Sector Superannuation accumulation plan
RBA	Reserve Bank of Australia
SBR	Standard Business Reporting
SDR	Special Drawing Rights
SES	Senior executive service
SPP	Specific Purpose Payment

GLOSSARY

Activities	The actions/functions performed by agencies to deliver government policies.
Administered item	Appropriation that consists of funding managed on behalf of the Commonwealth. This funding is not at the discretion of the agency and any unspent appropriation is returned to the Consolidated Revenue Fund (CRF) at the end of the financial year. An administered item is a component of an administered program. It may be a measure but will not constitute a program in its own right.
Appropriation	An amount of public money parliament authorises for spending with funds to be withdrawn from the CRF. Parliament makes laws for appropriating money under the Annual Appropriation Acts and under Special Appropriations, with spending restricted to the purposes specified in the Appropriation Acts.
APS employee	A person engaged under section 22, or a person who is engaged as an APS employee under section 72, of the *Public Service Act 1999*.
Clear read principle	Under the Outcomes arrangements there is an essential clear link between the Appropriation Bills, the Portfolio Budget Statements (PBS), the Portfolio Additional Estimates Statements, and annual reports of agencies. Information should be consistent across these and other budget documents, and where possible, duplication of reporting within the PBS should be avoided. This is called the clear read between the different documents. Under this Principle the planned performance in PBS is to be provided on the same basis as actual performance in the annual reports covering the same period, to permit a clear read across planning and actual performance reporting documents. Agencies should take this into account in designing their performance reporting arrangements.
Commonwealth Authorities and Companies Act 1997 (CAC Act)	The CAC Act sets out the financial management, accountability and audit obligations on Commonwealth statutory authorities and companies in which the Commonwealth has at least a direct controlling interest. A list of CAC Act bodies can be found at: finance.gov.au/financial-framework/cac-legislation/docs/CAC-body-list.pdf.

Consolidated Revenue Fund (CRF)	The principal operating fund from which money is drawn to pay for the activities of the Government. Section 81 of the Australian Constitution provides that all revenue raised or monies received by the Executive Government forms one consolidated revenue fund from which appropriations are made for the purposes of the Australian Government.
Contractor	A person engaged by an agency, usually on a temporary basis. Treated as an employee of the agency for the purposes of program performance reporting.
Corporate governance	The process by which agencies are directed and controlled. It is generally understood to encompass authority, accountability, stewardship, leadership, direction and control.
Departmental item	Resources (assets, liabilities, revenues and expenses) that agency Chief Executive Officers control directly. This includes outsourced activities funded and controlled by the agency. Examples of departmental items include agency running costs, accrued employee entitlements and net appropriations. A departmental item is a component of a departmental program.
Financial Management and Accountability Act 1997 (FMA Act)	The FMA Act sets out the financial management, accountability and audit obligations of agencies (including Departments) that are financially part of the Commonwealth (and form part of the General Government Sector). A list of FMA Act agencies can be found at: finance.gov.au/financial-framework/fma-legislation/docs/FMA-Agencies-List.pdf.
Financial results	The results shown in the financial statements of an agency.
Grant	Commonwealth financial assistance as defined under Regulations 3A(1) and 3A(2) of the Financial Management and Accountability Regulations 1997.
Materiality	Takes into account the planned outcome and the relative significance of the resources consumed in contributing to the achievement of that outcome.
Mid-Year Economic and Fiscal Outlook (MYEFO)	The MYEFO provides an update of the Government’s budget estimates by examining expenses and revenues in the year to date, as well as provisions for new decisions that have been taken since the Budget. The report provides updated information to allow the assessment of the Government’s fiscal performance against the fiscal strategy set out in its current fiscal strategy statement.

Non-ongoing APS employee	A person engaged as an APS employee under subsection 22(2)(a) of the *Public Service Act 1999*.
Official Public Account (OPA)	The OPA is the Australian Government's central bank account held within the Reserve Bank of Australia. The OPA reflects the operations of the Consolidated Revenue Fund.
Ongoing APS employee	A person engaged as an ongoing APS employee under section 22(2)(a) of the *Public Service Act 1999*.
Operations	Functions, services and processes performed in pursuing the objectives or discharging the functions of an agency.
Outcomes	The results, impacts or consequence of actions by the Commonwealth on the Australian community. They should be consistent with those listed in agencies' Portfolio Budget Statements.
Performance information	Evidence about performance that is collected and used systematically which may relate to appropriateness, effectiveness and efficiency and the extent to which an outcome can be attributed to an intervention. Performance information may be quantitative (numerical) or qualitative (descriptive), however, it should be verifiable.
Portfolio Budget Statements (PBS)	Budget related paper detailing budget initiatives and explanations of appropriations specified by outcome and program by each agency within a portfolio.
Programs	An activity or groups of activities that deliver benefits, services or transfer payments to individuals, industry/business or the community as a whole and are the primary vehicles for government agencies to achieve the intended results of their outcome statements.
Public service care agency	A public service care agency is defined in section 4 of the *Carer Recognition Act 2010* to mean an agency as defined in the *Public Service Act 1999* that is responsible for the development, implementation, provision or evaluation of policies, programs or services directed to carers or the persons for whom they care.
Senate Estimates Hearings	Senate Standing Committees hold hearings to scrutinise the appropriation bills and any explanatory documentation tabled to accompany them. Public Servants are called as witnesses to hearings.
Specific Purpose Payments (SPP)	Commonwealth payments to the States for specific purposes in order to pursue important national policy objectives in areas that may be administered by the States.

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