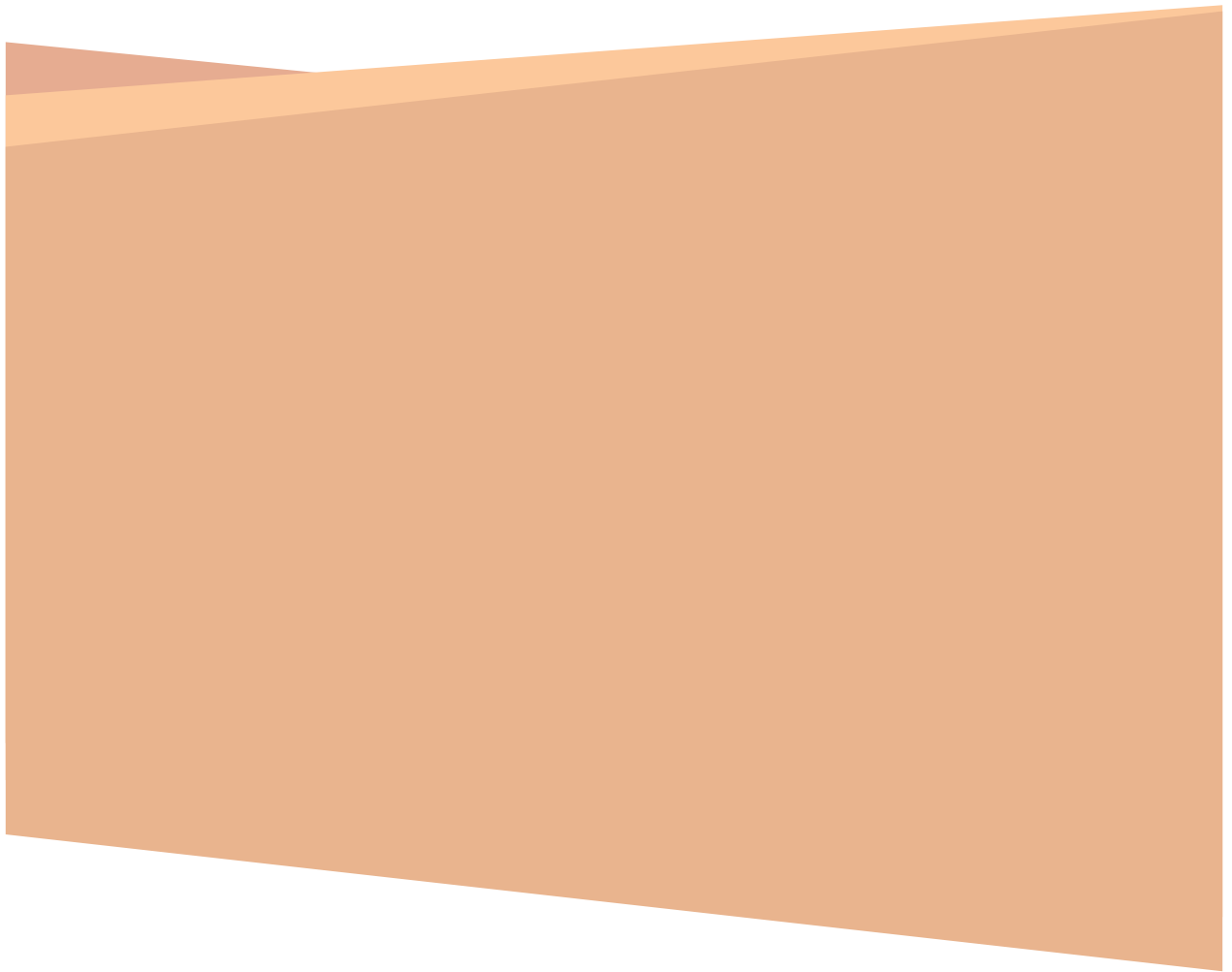


Part 1

Departmental overview



Secretary's review

In the year and a half since my return, Treasury has continued its evolution as an organisation driven by the need to promote policies that are fiscally responsible, market-oriented and reform-focussed. I note once again the diverse range of issues and responsibilities Treasury covers: everything from the global economy to fiscal policy, Commonwealth-State relations, foreign investment, taxation, superannuation, productivity reform and the financial system. A further 15 agencies constitute our wider portfolio.

Our core business remains supporting the Government with sound economic advice and robust analysis. It's not every year that Treasury, along with our Finance colleagues, must deliver a Budget as well as both a Pre-election and a Mid-year Economic and Fiscal Outlook but this year we did. When the Budget was brought forward by a week, we rose to the occasion. We also released a PEFO that was rigorous and forthright.

Treasury remains focussed on the need to support sustained growth in the Australian economy. We have undertaken significant work on tax reform and are continuing to invest in our capability to ensure that we have a vision for the tax system of the future. We are also working to implement competition and productivity-enhancing reforms in response to the Harper Competition Policy Review.

Treasury's core business has essentially not changed but the way we do business certainly has. Treasury is — and must become even more so — a more outward-looking department than it was when I left the department twenty years ago. The most obvious sign of that outward focus is the new offices we have established in major cities. This year we marked the first anniversary of the Sydney office and opened an office in Melbourne.

Arriving in Melbourne in June 2016, Treasury was in fact returning to the city of its birth. The original Treasury began on Collins Street, Melbourne in 1901 and moved up to the new capital in 1927.

Today, the Sydney and Melbourne offices are in the heart of Australia's busiest financial districts and most dynamic markets. They are there to deepen Treasury's engagement with business and the broader community and to make that engagement a standard part of the way Treasury thinks and operates. In its first year, the Sydney office has grown in reputation



John A. Fraser
Secretary to the Treasury

and reach, tapping into the broadest range of perspectives. Our presence in Melbourne will do the same. Consultation and engagement with the wider world ensures that our advice is well-grounded, well-informed and authoritative. In addition to these new offices, we are making greater use of our international posts to ensure our policy advice is informed by developments across the world.

As well as reaching out, we are also inviting the private sector in through secondment opportunities and a more inclusive approach to recruitment. The Sydney and Melbourne offices make Treasury a more attractive employer for top people from the private sector. In turn, their expertise makes Treasury a more rounded and diverse institution. Here in Canberra too, new recruits and secondees have helped us develop new capabilities and a richer understanding of the non-government sectors. Recruitment is a continuing focus for the organisation — from graduates through to the most senior levels.

The Executive Committee has changed as we have welcomed two new Deputy Secretaries from outside the organisation. In October 2015, Michael Brennan joined as Deputy Secretary of Fiscal Group. Michael brings broad experience in both public and private sectors, including as a Deputy Secretary in the Victorian Treasury and an Associate Director at PricewaterhouseCoopers. In May 2016, Maryanne Mrakovcic came back to Treasury after three years at the New South Wales Treasury to serve as Deputy Secretary of Revenue Group. Maryanne brings a wealth of experience, including time at the International Monetary Fund in Washington. Long-serving Deputy Rob Heferen moved in March 2016 to join the Department of Industry, Innovation and Science.

In some ways, Treasury in 2015-16 would be unrecognisable to the handful of officers that made up a fledgling Treasury in 1901. While our place as the Government's trusted economic adviser has not changed, the range and pace of our work have changed enormously. To keep up with these changes, we must continue to adapt our work processes, improve our flexibility and better integrate policy development across the organisation — and we are rising to this challenge. The year under review in this report demonstrates what an exciting phase this is in Treasury's evolution as a modern institution that looks both outward and forward.

John A. Fraser

Departmental overview

Purpose

The Treasury is the primary economic adviser to the Australian Government. The Treasury contributes to government policy analysis from a whole-of-economy perspective. The Treasury serves the Australian people by assisting the Government to manage emerging domestic and international opportunities and pressures. The department administers its programs through 15 portfolio agencies and performs critical administrative tasks such as making Commonwealth payments to the states and territories.

The Treasury's portfolio jurisdiction ranges from tax policy and law design to international economic engagement, social policy and to industry and infrastructure policy. This work is guided by the current operating environment but the Treasury seeks to be forward-looking and to anticipate government and stakeholder circumstances. It also strives to respond rapidly to changing events by considering what lies ahead in the medium and long-term.

The Treasury's three priorities are:

- promoting fiscal sustainability
- increasing productivity and workforce participation
- securing the benefits of global economic integration.

Delivering on these priorities requires a high-performing and adaptive organisation.

The Treasury currently comprises of five specific groups, being the:

1. Macroeconomic Group
2. Fiscal Group
3. Revenue Group
4. Markets Group
5. Corporate Group.

Figure 1: Treasury Group senior management as at 30 June 2016



Figure 2: Treasury outcome and program structure as at 30 June 2016

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.

Treasury groups include specialist divisions that are responsible to deliver identified programs to achieve its outcome.

Program 1.1: Department of the Treasury

Macroeconomic Group	Macroeconomic Conditions Division Macroeconomic Modelling and Policy Division International Policy and Engagement Division
Fiscal Group	Budget Policy Division Commonwealth-State Relations Division Industries, Infrastructure and Environment Division Social Policy Division Retirement Income Policy Division
Revenue Group	Corporate and International Tax Division Individuals and Indirect Tax Division Law Design Practice Tax Analysis Division Tax Framework Division Board of Taxation Secretariat
Markets Group	Australian Government Actuary Foreign Investment and Trade Policy Division Market and Competition Policy Division Financial System Division Small Business Policy Division Australian Small Business and Family Enterprise Ombudsman Takeover's Panel
Corporate Group	Business Services Division Financial and Parliamentary Division Organisation Strategy — People and Communications Division

Program 1.2: Payments to international financial institutions

Macroeconomic Group: International Policy and Engagement 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 skills and workforce development

Fiscal Group: Commonwealth-State Relations Division

Program 1.7: Assistance to the states for disability services

Fiscal Group: Commonwealth-State Relations Division

Program 1.8: Assistant to states for affordable housing

Fiscal Group: Commonwealth-State Relations Division

Program 1.9: National partnership payments to the states

Fiscal Group: Commonwealth-State Relations Division

Financial performance

The Treasury has a sound financial position, with sufficient cash reserves to fund its debts as and when they fall due. After adjusting for depreciation and changes to asset revaluation reserves, the Treasury reported an operating deficit of \$2.9 million in 2015-16, which was driven by the revaluation of employee entitlements resulting from the decline in the government bond rate. This compares with a surplus of \$4.6 million in 2014-15 after adjusting for depreciation and changes to asset revaluation reserves. The Treasury’s administered expenses over 2015-16 were \$88.0 billion, compared with \$83.8 billion in 2014-15.

The Treasury received an unqualified audit report on the 2015-16 financial statements from the Australian National Audit Office. These statements are in Part 4 on pages 64-142.

Figure 3: Treasury portfolio outcome and program structure

<p>Portfolio Minister — Treasurer The Hon Scott Morrison MP</p> <p>Minister for Small Business and Assistant Treasurer The Hon Kelly O’Dwyer MP</p> <p>Assistant Minister to the Treasurer The Hon Alex Hawke MP</p>
<p style="text-align: center;">Department of the Treasury Secretary: John Fraser</p> <p>Outcome 1: Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.</p> <p>Program 1.1: Department of the Treasury 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 skills and workforce development Program 1.7: Assistance to the states for disability services Program 1.8: Assistant to states for affordable housing Program 1.9: National partnership payments to the states</p>
<p style="text-align: center;">Australian Bureau of Statistics Statistician: David W Kalisch</p> <p>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.</p> <p>Program 1.1: Australian Bureau of Statistics</p>
<p style="text-align: center;">Australian Competition and Consumer Commission Chairman: Rod Sims</p> <p>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.</p> <p>Program 1.1: Australian Competition and Consumer Commission Program 1.2: Australian Energy Regulator</p>

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

<p>Australian Office of Financial Management Chief Executive Officer: Robert Nicholl</p>
<p>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.</p> <p>Program 1.1: Australian Office of Financial Management</p>
<p>Australian Prudential Regulation Authority Chairman: Wayne Byres</p>
<p>Outcome 1: Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation that balances financial safety and efficiency, competition, contestability and competitive neutrality.</p> <p>Program 1.1: Australian Prudential Regulation Authority</p>
<p>Australian Securities and Investments Commission Chairman: Greg Medcraft</p>
<p>Outcome 1: To allow markets to allocate capital efficiently to fund the real economy by promoting investor and financial consumer trust and confidence, facilitating fair, orderly and transparent markets and delivering efficient and accessible registration.</p> <p>Program 1.1: Australian Securities and Investments Commission Program 1.2: <i>Banking Act 1959, Life Insurance Act 1995, unclaimed monies and special accounts</i></p>
<p>Australian Taxation Office Commissioner: Chris Jordan AO</p>
<p>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.</p> <p>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: Australian Charities and Not-for-profit Commission Program 1.6: Australian Screen Production Incentive Program 1.7: Cleaner Fuels Grant Scheme Program 1.8: Conservation Tillage Refundable Tax Offset Program 1.9: Exploration Development Incentive Program 1.10: Fuel Tax Credits Scheme Program 1.11: National Rental Affordability Scheme Program 1.12: Product Stewardship for Oil Program 1.13: Research and Development Tax Incentive Program 1.14: Seafarer Tax Offset Program 1.15: Baby Bonus Tax Offsets Program 1.16: Education Tax Refund Program 1.17: First Home Saver Accounts Program 1.18: Low Income Earner Superannuation Contribution Program 1.19: Private Health Insurance Rebate Program 1.20: Superannuation Co-contribution Scheme Program 1.21: Superannuation Guarantee Scheme Program 1.22: Targeted assistance through the taxation system Program 1.23: Interest on Overpayments and Early Payments of Tax Program 1.24: Bad and Doubtful Debts and Remissions</p>

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

<p style="text-align: center;">Clean Energy Finance Corporation* CEO: Oliver Yates</p> <p>Outcome 1: Facilitate increased flows of finance into Australia's clean energy sector, applying commercial rigour to investing in renewable energy, low emissions and energy efficiency technologies, building industry capacity, and disseminating information to industry stakeholders.</p> <p>Program 1.1: Commonwealth Grants Commission</p> <p>* Responsibility for the Clean Energy Finance Corporation transferred to the Environment portfolio at the end of the 2014-15 financial year, under revised Administrative Orders of 21 September 2015.</p>
<p style="text-align: center;">Commonwealth Grants Commission Secretary: Michael Willcock</p> <p>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.</p> <p>Program 1.1: Commonwealth Grants Commission</p>
<p style="text-align: center;">Inspector-General of Taxation Inspector-General: Ali Noroozi</p> <p>Outcome 1: Improved tax administration through community consultation, review and independent advice to Government.</p> <p>Program 1.1: Inspector-General of Taxation</p>
<p style="text-align: center;">National Competition Council President: Julie-Anne Schafer</p> <p>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</p> <p>Program 1.1: National Competition Council</p>
<p style="text-align: center;">Office of the Auditing and Assurance Standards Board Chairman: Merran Kelsall</p> <p>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.</p> <p>Program 1.1: Auditing and Assurance Standards Board</p>
<p style="text-align: center;">Office of the Australian Accounting Standards Board Chairman: Kris Peach</p> <p>Outcome 1: The formulation and making of external reporting standards that are used by Australian entities to prepare financial reports and enable users of these reports to make informed decisions.</p> <p>Program 1.1: Australian Accounting Standards Board</p>
<p style="text-align: center;">Productivity Commission Chairman: Peter Harris</p> <p>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.</p> <p>Program 1.1: Productivity Commission</p>
<p style="text-align: center;">Royal Australian Mint Chief Executive Officer: Ross MacDiarmid</p> <p>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.</p> <p>Program 1.1: Royal Australian Mint</p>