

Chapter 1

Annual report of departments

Department of Industry [incorporating the annual reports of Geoscience Australia and IP Australia]

1.1 The Department of Industry's 2013–14 annual report was tabled in both houses of the Senate and House of Representatives on 28 October 2014. The 2013–14 annual reports for Intellectual Property Australia (IP Australia), which operates as a non-statutory agency with limited autonomy from the department, and the annual report for the Geoscience Australia (GA), are also contained in this annual report.

1.2 Following the Administrative Arrangements Order (AAO) issued on 18 September 2013, the Industry portfolio brought together the skills, science, innovation, industry, resources and energy functions of the former Industry, Innovation, Climate Change, Science, Research and Tertiary Education; and Resources, Energy and Tourism portfolios. The AAO also included the transfer of anti-dumping functions from the Immigration and Border Protection portfolio to the Industry Portfolio.¹

1.3 As part of the machinery of government changes following the 2013 federal election, the new department is responsible for a range of functions critical to improving the competitiveness of Australian industry, particularly in the area of science, research and development, energy and resources, vocational education and training, anti-dumping and industry policy.²

1.4 For the reporting period at 30 June 2014, the department's performance reporting framework comprised four outcomes, which reflected the 2013–14 Portfolio Additional Estimates Statements.

Review by Departmental Secretary

1.5 In its review, the department undertook a broad range of activities at a time of significant ongoing structural adjustment due to the effect of declining mining investments and traditional forms of manufacturing on the Australian economy.³

1.6 Throughout this period, the department's efforts were directed towards the following key initiatives:

- establishing a one-stop shop for the environmental approval of major offshore resources projects;
- pursuing the government's commitment to reduce the regulatory burden on business;

1 Department of Industry, *Annual Report 2013–14*, p. 8.

2 Department of Industry, *Annual Report 2013–14*, p. 2.

3 Department of Industry, *Annual Report 2013–14*, p. 2.

- putting in place arrangements through the \$50 million Manufacturing Transition Grants Programme to assist the transition of businesses to become more competitive and sustainable; and
- developing the Exploration Development Incentive, which was to attract private investment and drive the next wave of mining exploration and development.

1.7 In addition to the government's 2014–15 Budget commitments, some of the department's other main initiatives included:

- the \$484.2 million Entrepreneurs' Infrastructure Programme, which offers easy access and practical support to Australian businesses to develop entrepreneurial skills, commercialise good ideas and provide support to business in a simplified and streamlined way;
- the \$476 million⁴ Industry Skills Fund, prioritised through small and medium enterprises to re-skill or up-skill their existing workforce to take advantage of new technology, innovative work practices and emerging market opportunities; and
- development of the government's \$155 million Growth Fund to support employees, businesses and regions affected by the GM Holden and Toyota decisions to cease car manufacturing in 2017.⁵

1.8 In 2013–14 the department also set in train processes for building the foundation for a strong and sustainable organisation to provide evidence-based advice for the government's reform agenda. Following the department's restructure, it managed the transition of 12 streams of incoming and outgoing functions, including the transfer of about 760 staff into the department and 870 to other departments and agencies.⁶

1.9 During the financial year, the department also introduced significant efficiencies, which included: reducing the number of senior executive by 16 per cent; rationalising a number of boards and committees; commencing development of a consolidated corporate support model including shared services; and rationalising the department's office accommodation.⁷

1.10 The department's direction for the following year will include some of the following:

- focus on the implementation and delivery of key budget initiatives;
- finalising the Energy White Paper;

4 The figure should be \$476 million and not \$476 as indicated in Department of Industry, *Annual Report 2013–14*, p. 3.

5 Department of Industry, *Annual Report 2013–14*, p. 3.

6 Department of Industry, *Annual Report 2013–14*, p. 3.

7 Department of Industry, *Annual Report 2013–14*, p. 3.

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- consolidating functions into the Single Business Service Centre;
 - delivering and supporting key elements of the government's industry innovation and competitiveness agenda; and
 - improving the impact of the government's expenditure.

Operational matters

1.11 For the 2013–14 financial year, the department recorded an operating loss of \$41 million, including depreciation and amortisation of \$48.17million. Excluding depreciation and amortisation, the department recorded an operating surplus of \$6.75 million in 2013–14.⁸

1.12 The department reported administered income as largely relating to Royalty revenue, dividends issued by Snowy Hydro Limited, and registration fees generated by the National Offshore Petroleum Titles Administrator.⁹

1.13 Some of the department's administered expenses for programmes on behalf of the government included: \$1,114 billion to provide vocational education and training and support to students; \$1,711 billion in grants to universities to increase skills, qualifications and productivity; and \$434.25 million in grants to increase the production, use and awareness of science and research knowledge.¹⁰ The department reported a net equity of \$331 million as at 30 June 2014.¹¹

1.14 The department had budgeted for an approved loss up to \$1.20 million, in part, to allow for the one-off costs associated with incorporating these functions into and out of the department as a result of the recent machinery of government changes. The operating result also incorporated the full-year impact of the 2014 machinery of government changes.¹²

Geoscience Australia

1.15 In its report, Geoscience Australia recorded the following highlights for the reporting period included:

- Publication of various reports and data that underpin evidence-based technical advice to government. These included *Australian Energy Resource Assessment*, the OZMIN database, *Critical commodities for a high-tech world*, the *Australian Mines Atlas* and *Australia's Identified Mineral Resource*.¹³ They provided exploration and production information on Australia's resources to assist in policy development and identified new opportunities for

8 Department of Industry, *Annual Report 2013–14*, p. 4.

9 Department of Industry, *Annual Report 2013–14*, p. 5.

10 Department of Industry, *Annual Report 2013–14*, p. 5.

11 Department of Industry, *Annual Report 2013–14*, p. 4.

12 Department of Industry, *Annual Report 2013–14*, p. 4.

13 Department of Industry, *Annual Report 2013–14*, p. 280.

industry.¹⁴ The *Australian Energy Resource Assessment* report provided an update to the 2010 edition, and offered critical statistics and analysis for discussion about Australia's energy future and the development of the government's Energy White Paper.¹⁵

- Development of the Australian Geoscience Data Cube, a major step towards more open and useful government science data. This data will allow scientists to analyse hundreds of thousands of images simultaneously and can be used for a wide range of applications, including carbon accounting, Antarctic science, and mapping of vegetation change, flood inundation, surface minerals, shallow water bathymetry, and land cover.¹⁶
- Publication of the results of the ground-breaking Broken Hill Managed Aquifer Recharge (BHMAR) project managed by the Department of the Environment. Geoscience Australia identified a range of new groundwater and managed aquifer recharge options for the Broken Hill region.¹⁷

IP Australia

1.16 Similarly, some of the highlights for IP Australia for the 2013–14 period included:

- An increase in demand for Australian IP rights in 2013–14, which reflected international trends. The filing of patent applications domestically returned to levels previously reached prior to the global financial crisis (GFC) in 2007, and the filing of applications for trademarks similarly grew and returned to pre-GFC levels sooner.¹⁸
- IP Australia continued its work with engaging with IP professionals, academics and representatives of other government agencies on its strategic research program and making relevant data available for broader scrutiny and use.¹⁹
- IP Australia became the first Commonwealth agency to volunteer to undergo an agency Capability Review by the Australian Public Service Commissioner (APSC). These external assessments provided insight into the agency's strengths and weaknesses, which enabled it to address any capability gaps. The review's preliminary findings have shaped IP Australia's operational planning for 2014–15.²⁰

14 Department of Industry, *Annual Report 2013–14*, p. 281.

15 Department of Industry, *Annual Report 2013–14*, p. 268.

16 Department of Industry, *Annual Report 2013–14*, p. 269.

17 Department of Industry, *Annual Report 2013–14*, pp. 269 and 281.

18 Department of Industry, *Annual Report 2013–14*, p. 384.

19 Department of Industry, *Annual Report 2013–14*, p. 384.

20 Department of Industry, *Annual Report 2013–14*, p. 385.

1.17 IP Australia operates independently of the Department of Industry on financial matters, and with some degree of autonomy on other matters, and recovers more than 98 per cent of its costs by charging fees for its IP rights service.²¹

Reporting requirements

1.18 The Department of Industry's 2013–14 annual report, which incorporates Geoscience Australia and IP Australia, is well presented, with easy to locate information and provides a 'clear read' between information contained in the annual report and the Portfolio Budget Statements (PBS). Information in Key Performance Indicators (KPIs) contains quantitative as well as qualitative information for benchmarking and assessing whether estimates have been achieved over the reporting period. For 2013–14, the KPIs for the programs of outcomes 1, 2 and 5 are set out in the Department of Industry 2013–14 Portfolio Additional Estimates Statements (PAES), DIICSRTE 2013–14 PBS and DRET 2013–14 PBS. For the programs of outcome 3, the deliverables set out in the Department of Industry 2013–14 PAES and DIICSRTE 2013–14 PBS are used as the KPIs.²²

1.19 The annual report for the Department of Industry, incorporating Geoscience Australia and IP Australia, closely adheres to the compliance index with the inclusion of some suggested reporting requirements such as significant changes in nature of principal functions or services;²³ factors, events or trends influencing departmental performance;²⁴ and contribution of risk management in achieving objectives.²⁵ Furthermore, by incorporating a range of real life case studies into the department's annual report, complex information is made more user-friendly. In the area of external scrutiny, the committee is pleased to note the annual report's comprehensive summary of the different types of external scrutiny the department has undergone, including its appearance before several parliamentary senate estimates hearings.²⁶ The committee considers that Department of Industry, Geoscience Australia and IP Australia, have met their reporting obligations under the Acts and the annual report is 'apparently satisfactory'.

Department of the Treasury

1.20 The Department of the Treasury's ('the department' or 'Treasury') 2013–14 annual report was tabled in the Senate on 17 November 2014²⁷ and in the House of Representatives on 24 November 2014.

21 Department of Industry, *Annual Report 2013–14*, p. 388.

22 Department of Industry, *Annual Report 2013–14*, p. 12.

23 Department of Industry, *Annual Report 2013–14*, pp. 10–12 and 13–16.

24 Department of Industry, *Annual Report 2013–14*, pp. 14–15, 30–31, 40–41 and 52–53.

25 Department of Industry, *Annual Report 2013–14*, pp. 69–70.

26 Department of Industry, *Annual Report 2013–14*, p. 71.

27 Tabled in the chamber having been presented out of session on 31 October 2014.

Review by Departmental Secretary

1.21 In the Secretary's last departmental review, Dr Parkinson outlined the transitional environments in which the Australian economy operated and the role of the Department of the Treasury (Treasury) during this period of transition.

1.22 While economic activity picked up in the United States, United Kingdom and Japan and remained weak in Europe, it eased in the emerging economies following their prominent role in driving economic activity post the global financial crisis (GFC).²⁸

1.23 According to Dr Parkinson, on the domestic front, the Australian economy continued its shift from investment in the resource sector towards non-resource sectors. This shift has been slower than anticipated with economic activity recording below trend growth for several years, which resulted in a building output gap and an increase in the unemployment rate.²⁹ Presented with the above conditions, and with a backdrop of falling terms of trade, the secretary explained that for Australia to deliver economic growth sufficient to reduce unemployment and continue to enjoy living standards improvements, priority needs to be directed towards boosting the country's productivity growth and ensuring fiscal sustainability.³⁰

1.24 In 2013–14, following the federal election, Treasury focused on the delivery of the government's election commitments for the remainder of the year. In this context, the department provided advice on pathways to fiscal consolidation over the medium-term and assisted the National Commission of Audit through the provision of staff, and information on structure and components of government revenue and expenditure.³¹

1.25 The 2013–14 period was also a transitional period for the department. Following completion of the Australian Public Service Commission Capability Review of Treasury, the department responded by developing a Capability Action Plan (incorporating some reforms which were already in train), which focused on improving performance in four main areas: leadership and change management; and planning, budgeting and measuring.³²

1.26 Against the department's backdrop of shrinking resources and a reduction of up to a third of staff from their previous peak in 2011, the department continued its strong focus on improving Treasury's knowledge base and organisational strategies. The secretary commended staff for their professionalism and resilience for their continued provision of high-calibre policy analysis advice in such challenging circumstances.³³

28 Department of Treasury, *Annual Report 2013–14*, p. 3.

29 Department of Treasury, *Annual Report 2013–14*, p. 3.

30 Department of Treasury, *Annual Report 2013–14*, p. 3.

31 Department of Treasury, *Annual Report 2013–14*, p. 3.

32 Department of Treasury, *Annual Report 2013–14*, p. 4.

33 Department of Treasury, *Annual Report 2013–14*, p. 5.

1.27 The following highlights were among some of the Secretary's listed highlights:

- support provided for the G20 tax agenda, including the department's contribution to the development of the OECD action plan on base erosion and profit-shifting, and consultation with businesses on exchange of information proposals.³⁴
- assistance provided to maintain a robust and dynamic financial system, and ensured that regulatory frameworks promote macroeconomic stability and market confidence via the implementation of financial regulatory reforms, including rules that address the availability and quality of financial advice; likewise, progress on the implementation of internationally agreed regulatory reforms designed to support financial stability.³⁵
- secretariat support provided to the Financial System Inquiry and the Competition Policy Review, which provided recommendations to the government on how to ensure the financial regulation and competition policy frameworks are best positioned to support productivity growth and economic stability.³⁶
- continued development of Treasury's two-way secondment program where Treasury staff have been seconded to the Business Council of Australia, BHP Biliton, the Financial Services Council and the Australian Bankers Association. Secondments to other parts of the public service have included: the Reserve Bank of Australia, the Australian Taxation Office, the Australian Competition and Consumer Commission, Department of Foreign Affairs and Trade, the Australian National University's Tax and Transfer Policy Institute and the Commission of Audit.³⁷

Operational matters

1.28 The annual report noted that the Treasury received an unqualified audit report on the 2013–2014 financial statements from the Australian National Audit Office (ANAO).³⁸

1.29 The department reported a surplus of \$0.3 million, compared to a surplus of \$3.0 million previously. Employee expenses increased by \$10.4 million from the previous year mainly due to the voluntary redundancy process. Likewise, supplier expenses increased by \$8.3 million from the previous reporting period mainly due to

34 Department of Treasury, *Annual Report 2013–14*, p. 4.

35 Department of Treasury, *Annual Report 2013–14*, p. 4.

36 Department of Treasury, *Annual Report 2013–14*, p. 4.

37 Department of Treasury, *Annual Report 2013–14*, p. 5.

38 Department of Treasury, *Annual Report 2013–14*, p. 12.

expenditure relating to the hosting the G20 Finance Ministers' and Central Bank Governors' meetings as part of Australia's 2014 host year.³⁹

1.30 The department incurred \$93.8 billion in administered expenses in 2013–14, compared to the \$81.4 billion in 2012–13, Treasury provided a one-off \$8.8 billion grant to the Reserve Bank of Australia (RBA) to strengthen its financial position to the level considered appropriate by the RBA Board. There was also an increase in grant expenses to the states and territories that the Treasury provides under the *Intergovernmental Agreement on Federal Financial Relations*.

1.31 The Treasury's departmental net asset position decreased by \$3.6 million in 2013–14, mainly due to the recognition of separation and redundancies payable at 30 June 2014.⁴⁰ Conversely, Treasury's net assets increased by \$12.3 billion for the reporting period; this was mainly attributed to an increase in the value of Treasury's investments in Australian Government Entities. The department reported sufficient cash reserves to fund liabilities.⁴¹

1.32 During the reporting period, Treasury advised Treasury ministers, other ministers of the Government and relevant stakeholders on a range of macroeconomic issues, including:

- an analysis of the Australian and international economic outlook, including the Australian fiscal outlook, and prepared macroeconomic forecasts;
- monitoring domestic and international economic, financial and policy developments to assess their implications for macroeconomic policy settings; and
- an analysis on drivers of the Australian economy and factors likely to influence medium-term economic performance, including productivity. This analysis was used to develop policy recommendations to improve Australia's economic growth, living standards and wellbeing.⁴²

1.33 For 2013–14, Treasury contributed to public debate and awareness of budget decisions and the fiscal outlook when it reported roughly 460,000 unique visitors to the Budget website between 2014–15 Budget and 30 June 2014 and over 3.9 million pages having been viewed.⁴³ Treasury has jointly prepared with the Department of Finance other information made widely accessible including the *Budget Overview*, *Building Australia's Infrastructure*, and information books on the topics of *Higher Education*, *Health*, and *Social Services*.⁴⁴ In consultation with the AOFM, Treasury

39 Department of Treasury, *Annual Report 2013–14*, p. 12.

40 Department of Treasury, *Annual Report 2013–14*, p. 12.

41 Department of Treasury, *Annual Report 2013–14*, p. 12.

42 Department of Treasury, *Annual Report 2013–14*, p. 24.

43 Department of Treasury, *Annual Report 2012–13*, p. 32; Department of Treasury, *Annual Report 2013–14*, p. 31.

44 Department of Treasury, *Annual Report 2013–14*, p. 31.

also provided advice 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.⁴⁵

1.34 Through the Markets Group, Treasury provided advice on policies intended to promote competitive, efficient markets and to enhance consumer wellbeing; a secure financial system and sound corporate practices; and foreign investment consistent with Australia's interest.⁴⁶

1.35 The department also provided a range of advice to the government on:

- the prudential framework applying to financial markets, including the banking sector, insurers, superannuation funds and capital markets;⁴⁷
- foreign investment and trade policy, and continued to participate in free trade agreement negotiations;⁴⁸
- the improved operation of Australia's financial reporting, corporate governance and corporate insolvency regimes;⁴⁹
- competition in product and services markets, and to support the interests of Australian consumers.⁵⁰

1.36 The department also assumed the lead role in advising the government on whole of government policy settings to support the efficient operation of the Australian small business sector.⁵¹

Reporting requirements

1.37 The committee commends the Department of Treasury for its continued high-quality and comprehensive coverage of the department's operations and performance over the reporting period. The annual report's layout and format is user-friendly, especially with its inclusion of graphics, trend information and relevant visuals to break up the block of information presented in text form. This arrangement enhances the presentation of complex information. Furthermore, the list of requirements is closely adhered to, making information easy to locate. The committee is pleased to note the inclusion of suggested information such as: the approach adopted to identifying areas of significant financial or operational risk; how the nature and amount of remuneration for SES officers is determined; workforce planning, staff turnover and retention.⁵²

45 Department of Treasury, *Annual Report 2013–14*, p. 32.

46 Department of Treasury, *Annual Report 2013–14*, p. 40.

47 Department of Treasury, *Annual Report 2013–14*, p. 40.

48 Department of Treasury, *Annual Report 2013–14*, p. 40.

49 Department of Treasury, *Annual Report 2013–14*, p. 40.

50 Department of Treasury, *Annual Report 2013–14*, p. 40.

51 Department of Treasury, *Annual Report 2013–14*, pp. 40–41.

52 Department of Treasury, *Annual Report 2013–14*, pp. 77–78, 84, 88 and 233.

1.38 In relation to external scrutiny, the committee is pleased to note that Treasury has included a list of parliamentary committees it has participated in for 2013–14, as well as recent reports from the ANAO.⁵³

1.39 The committee considers the Department of Treasury's 2013–14 annual report 'apparently satisfactory'.

1.40 The committee would like to express its appreciation to the Treasury for regularly appearing at estimates and contributing to the committee's inquiries in 2013–14, as well as to other parliamentary inquiries. However, as previously noted, the committee is disappointed in the significant number of late answers to questions on notice.

53 Department of Treasury, *Annual Report 2013–14, Audit report Number 9 2013–14: Determination and Collection of Financial Industry Levies*, p. 81.