

Chapter 1

Annual report of departments

Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education—[includes IP Australia and the Tuition Protection Service]

1.1 The Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education's (DISCCSRTE OR 'the department') 2012–13 annual report was tabled in the Senate on 12 November 2013¹ and in the House of Representatives on 13 November 2013. The 2012–13 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 Tuition Protection Service, as required by section *Education Services for Overseas Student Act 2000*, are also contained in this annual report.

1.2 Following the March 2013 machinery of government changes which resulted in the transfer of a significant portion of the functions of the Department of Climate Change and Energy Efficiency (DCCEE), including the Clean Energy Regulator and the Climate Change Authority, to the department's portfolio, the department was renamed the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE).²

1.3 The Australian Solar Institute, which was established to facilitate collaborative research and development into solar technologies, ceased operation on 31 December 2012 and governance and management of its investment portfolio was transferred to the Australian Renewable Energy Agency (ARENA).

1.4 ARENA was established on 1 July 2012 to increase the supply of renewable energy and improve the competitiveness of renewable energy technologies.³

Review by Departmental Secretary

1.5 In the department's review, the secretary noted that the outlook for 2012–13 was one of transition away from a commodity-focussed economy and adjustments to diversify as the investment phase of the resources sector slowed. Businesses, which previously had to contend with the high Australian dollar, were adjusting again to the currency's depreciation against other major currencies. This adjustment, however, was in the context of a slower jobs growth and decreased company profits as a consequence of increased prices for inputs relative to growth for sales prices. The secretary explained that those businesses that have thrived have been those able to compete internationally in the area of high-value added products and services, even

1 Tabled in the chamber having been presented out of session on 30 October 2013.

2 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE), *Annual Report 2012–13*, pp 4–5.

3 Department of Resources, Energy and Tourism (DRET), *Annual Report 2012–13*, p. 3.

'against the headwind of the high Australian dollar'. This contrasts with the struggles of companies involved in the labour intensive and low-skilled manufacturing sectors.⁴

1.6 In 2012–13 the department undertook a realignment of the organisation to better maximise the interactions within the department and to build better linkages between the different parts. This included those parts that were transferred to the department from the machinery of government changes such as skills and tertiary education. To drive this work, the department appointed a Chief Economist and a Small Business Commissioner and sought continued input from the Chief Scientist to explore new opportunities and ideas for the department.

1.7 Some of the highlights for 2012–13 included:⁵

- In February 2013, the government released the Industry and Innovation Statement, a plan for a \$1 billion investment in Australian jobs. The statement, *A Plan for Australian Jobs*, outlined strategies for the Australian Government to work in partnerships with industry to drive business growth and innovation in areas of competitive advantage.
- A National and Mathematics education and Industry Adviser was appointed in February 2013 to progress a key focus area of the Chief Scientist's work in developing and providing policy advice to government, to help address the issue of emerging science, technology, engineering and mathematics skills shortages.
- The report of the *Review of Higher Education Access and Outcomes for Aboriginal and Torres Strait Islander People*, published in July 2012, found that the current participation of Aboriginal and Torres Strait Island people in higher education was still significantly below parity with the population as a whole.
- In June 2013 the department released the *Climate Adaptation Outlook: A Proposed National Adaptation Assessment Framework*. The report examined how well placed Australia was to manage the impacts of unavoidable climate change. Importantly, it consolidated current understanding of emerging climate adaptation issues that would affect businesses and communities in Australia and presented a systemic framework for thinking about how Australia manages risks from a changing climate.

Operational matters

1.8 For 2012–13, the department reported an operating loss of \$36.18 million and reflected the net introduction of the net cash appropriation arrangements where appropriation for depreciation and amortisation expenses ceased (\$48.84 million) and entities received a separate capital budget provided through equity appropriations.

4 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE), *Annual Report 2012–13*, pp 2–3.

5 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE), *Annual Report 2012–13*, pp 6–8.

1.9 Excluding depreciation and amortisation, the department recorded an operating surplus of \$12.66 million in 2012–13. The surplus was the result of a change in the accounting receipts (\$19.0 million) relating to the climate change functions that transferred to the department as part of the 25 March administrative arrangement orders. These receipts are now recognised as revenue instead of unearned revenue.⁶

1.10 The department had budgeted for an approved loss up to \$810 million, in part to allow for one-off costs associated with incorporating these functions into the department. The department's operating result also incorporated the full-year impact of the 2011 machinery of government changes when the tertiary education functions transferred from the Department of Education, Employment and Workplace Relations (DEEWR) as part of the administrative arrangement orders announced in December 2011. There was a revenue and expenses increase which reflected the impact of both the 2011 and 2013 machinery of government changes.

Reporting requirements

1.11 The DIICCSRTE'S 2012–13 annual report 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 KPIs contains quantitative as well as qualitative information for benchmarking and assessing whether estimates have been achieved over the reporting period. The annual report for DIICCSRTE and IP Australia closely adheres to the compliance index. Furthermore, the integration of a range of real life case studies is a very effective way of presenting complex information. By fleshing out the different issues with each case study, the annual report provides valuable insight into the work undertaken by the DIICCSRTE. The committee considers that DIICCSRTE and IP Australia have met their reporting obligations under the Acts and the annual report is 'apparently satisfactory'.

Department of Resources, Energy and Tourism—[includes Geoscience Australia]

1.12 The Department of Resources, Energy and Tourism's (DRET or 'the department') annual report for 2012–13 was tabled in the Senate on 12 November 2013⁷ and in the House of Representatives on 13 November 2013. The annual report also includes the 2012–13 annual report for Geoscience Australia, which operates as a non-statutory agency with limited autonomy from the department.

Departmental overview

1.13 During the 2012–13 reporting period there was a machinery of government change and the former Department of Climate Change's energy efficiency functions transferred to the department.

6 Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE), *Annual Report 2012–13*, pp 8–9.

7 Tabled in the chamber having been presented out of session on 30 October 2013.

1.14 Some of the department's achievements for 2012–13 included:⁸

- amendments to the legislation from the Montara Commission of Inquiry 2010 to strengthen the compliance, safety and environmental management aspects of offshore resource development;
- the completion of the 1978 Ranger Mining Agreement to provide to greater social and financial benefit to the traditional owners, as well as the delivery and acceptance of a rehabilitation plan for the Rum Jungle Mine;
- the delivery of a comprehensive energy market reform package endorsed by the Council of Australian Government (COAG) to ensure that consumers pay no more than necessary for electricity and that supply is reliable; and
- the delivery of more than 250 grants to support innovation in the tourism industry.

Operational matters

1.15 For the 2012–13 reporting period, the department reported a net operating deficit of \$0.5 million as a result of additional expenses incurred in the transition of energy efficiency functions to the department arising from the machinery of government changes announced in March 2013.

1.16 During 2012–13, the departmental appropriations increased from the preceding period as a result of the creation of the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) and the National Offshore Petroleum Titles Administrator (NOPTA), and additional funding associated with the transfer of energy efficiency functions to the department.

1.17 The government provided the department with \$116.7 million in departmental revenue for its operations and a further \$363.6 million in administered appropriations for resources, energy and tourism programs administered on behalf of government. The department administered \$2.0 billion in revenue collection, including \$1.78 billion in royalties for federal, state and territory jurisdictions.

1.18 The department received an unqualified audit report from the Auditor-General for its 2012–13 financial statements.

Reporting requirements

1.19 The committee notes the department did not use the most recent updated list of requirements from the PM&C's *Requirements for Annual Reports*, consequentially some new requirements have not been included in the annual report. The compliance index also contains some inaccuracies in relation to page reference numbers for several reporting items. It is also recommended that a separate list of reporting requirements be added for Geoscience Australia's annual report to distinguish the parts within the annual report that are relevant to Geoscience Australia and the parts that apply to the DRET. These inaccuracies and oversight notwithstanding, the information

8 Department of Resources, Energy and Tourism (DRET), *Annual Report 2012–13*, pp 4-5.

contained in the report is comprehensive and written in accessible language and utilises graphs, tables and charts to enhance information.

1.20 While the committee is pleased the annual report contains key performance indicators, it notes that the actual performance information measured against KPIs does not seem to contain targets. The inclusion of targets is desirable not only for benchmarking of actual results but for enhancing accountability and transparency in reporting.

1.21 The annual report has generally complied with the list of requirements for annual reports. The committee considers the Department of Resources, Energy and Tourism has met its reporting obligations under the Acts and its annual report is 'apparently satisfactory'.

Department of the Treasury

1.22 The Department of the Treasury's ('the department' or 'Treasury') 2012–13 annual report was tabled in the Senate on 12 November 2013⁹ and in the House of Representatives on 13 November 2013.

Review by Departmental Secretary

1.23 In his Secretary's Review, Dr Martin Parkinson, the Secretary of the Department summarised the significant issues and developments affecting the work of the Treasury¹⁰, and sets out the context in which the Department of Treasury (Treasury) pursues its mission of 'improving the wellbeing of Australians through sound and apolitical policy advice to ministers'¹¹.

1.24 The secretary outlined the difficult global economic context in which the Australian economy has been undergoing structural change, as the mining boom 'shifts from its investment phase and the terms of trade decline from their historic peak'. He drew attention to: subdued growth in advanced economies, volatility in key emerging markets, economic crisis in the Euro area, and the challenges ahead.¹² The secretary explained that, presented with such conditions, the task of managing the economy through this difficult environment, as well as forecasting and developing policy solutions becomes difficult.

1.25 In 2012–13, the Treasury reported that its focus was on strengthening its core organisational capabilities, and implementing recommendations from its two organisational reviews. These reviews specifically covered areas of IT and the adaption of new technology, and building capability through better strategic and operational workforce planning. The outlook for Australia's economic fundamentals were sound, but the secretary cautioned the need to lift productivity to balance the terms of declining trade to avoid a sharp drop in the country's living standard growth.

9 Tabled in the chamber having been presented out of session on 31 October 2013.

10 Department of Treasury, *Annual Report 2012-13*, pp 2-4.

11 Department of Treasury, *Annual Report 2012-13*, p. 3.

12 Department of Treasury, *Annual Report 2012-13*, p. 3.

According to the secretary, this was 'particularly a challenge in the context of international volatility, and structural transitions taking place in the Asia-Pacific and within the Australian economy'.

Operational matters

1.26 The annual report noted that the Treasury received an unqualified audit report on the 2012–2013 financial statements from the Australian National Audit Office (ANAO).

1.27 The department reported a surplus of \$3.0 million, which is a turnaround from the preceding 2011–12 period's deficit of 11.6 million. Employee expenses in 2012–13 decreased by \$12.7 million from 2011–12, which was associated with the corresponding decrease in operational funding.¹³ The department's net asset position decreased by \$17.9 million in 2012–13, mainly due to the transfer of the Standard Business Reporting software assets to the Australian Taxation Office (ATO).

1.28 In relation to administered expenses, the Treasury reported a decrease in administered expenses from \$86.9 billion in 2011–12 to \$81.4 billion for 2012–13.¹⁴ Under the *Intergovernmental Agreement on Federal Financial Relations*, Treasury reported a reduction in grant expenses to the States and Territories. The Treasury's administered net assets increased by \$1.4 billion in 2012–13; this is mainly attributed to an increase in the value of financial assets offset by an increase in provisions and payables. The department noted there were sufficient cash reserves to fund liabilities.¹⁵

1.29 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 and labour force participation rates.¹⁶

1.30 For 2012–13 Treasury contributed to public debate and awareness of budget decisions and the fiscal outlook when it reported over 210,270 unique visitors to its website and over 2.6 million pages being viewed.¹⁷ Other information Treasury

13 Department of Treasury, *Annual Report 2012-13*, p. 10.

14 Department of Treasury, *Annual Report 2012-13*, p. 10.

15 Department of Treasury, *Annual Report 2012-13*, p. 10.

16 Department of Treasury, *Annual Report 2012-13*, p. 23.

17 Department of Treasury, *Annual Report 2012-13*, p. 32.

prepared and made accessible to the public included non-specialist summary publications such as the *Budget Overview*, *Budget at a Glance*, the *National Plan for School Improvement*, *Disability Care Australia*, *Nation Building Infrastructure* and the *Tax Reform Road Map*.¹⁸ Treasury also continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund and the three Nation-building Funds.¹⁹

1.31 Through its Revenue Group, Treasury established a Law Design Practice (LDP) to provide greater focus on the implementation of legislation in the Government's taxation and retirement income reform agenda. In 2012–13, the LDP worked with Revenue Group Policy Divisions, the Office of Parliamentary Counsel and the ATO to progress and manage the preparation of tax and superannuation measures, including on a total of 39 tax bills containing 73 measures introduced into Parliament.²⁰

1.32 The department also provided advice to the government on ways to improve the country's superannuation system, and developed legislation for some of the measures. Some of those changes included:

- better targeting of the tax exemption for investment earnings on assets supporting income streams by capping it to the first \$100,000 of future earnings from 1 July 2014;
- simplifying the design of the higher concessional contributions cap from 1 July 2013 by setting a cap of \$35,000 to anyone who meets certain age requirements; and
- allowing individuals to withdraw any excess concessional contributions made from 1 July 2013 from their superannuation fund, and taxing the excess contributions at the individual's marginal tax rate plus an interest charge (rather than at the top marginal rate).²¹

Reporting requirements

1.33 The Department of Treasury's 2012–13 annual report is comprehensive in its coverage of the department's operations and performance over the reporting period. The layout and format is user-friendly, with graphics, trend information, an introductory guide to the report and visuals that are relevant and which enhances the presentation of information. Furthermore, the list of requirements is closely adhered to, making information easy to locate.

1.34 The committee is pleased to note that Treasury has included the latest report from the ANAO assessing the extent to which the department has improved its management of tax expenditure estimates following its implementation of six

18 Department of Treasury, *Annual Report 2012-13*, p. 32.

19 Department of Treasury, *Annual Report 2012-13*, p. 33.

20 Department of Treasury, *Annual Report 2012-13*, pp 38 and 41.

21 Department of Treasury, *Annual Report 2012-13*, p. 43.

recommendations by ANAO in its original 2007–08 report and three recommendations from the Joint Committee of Public Accounts and Audit (JCPAA).²²

1.35 The committee considers the Department of Treasury's 2012–13 annual report 'apparently satisfactory'.

1.36 The committee would like to express its appreciation to the Treasury for regularly appearing at estimates and contributing to the committee's inquiries in 2012–13, as well as to other parliamentary inquiries. It does note, however, the significant number of late answers to questions on notice. In particular, the committee is disappointed that Treasury provides some answers a few days before and even the very day that the subsequent round of estimates begins.

22 Department of Treasury, *Annual Report 2012-13*, p. 45.