AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

Section 1: Overview, variations and measures

OVERVIEW

There has been no change to the overview included in the 2001-02 Portfolio Budget Statements (page 117).

ADDITIONAL ESTIMATES AND VARIATIONS TO OUTCOMES

The Australian Prudential Regulation Authority (APRA) is seeking an additional $2.1 million in agency outputs to fund increase supervision of regulated superannuation entities during 2001-02. A further $4.0 million is required to meet expenses for the Royal Commission into the collapse of HIH.

The explanation for these variations are detailed below.

MEASURES

Outcome 1 — To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety, efficiency, competition, contestability and competitive neutrality

	2001-02 ($'000)	2002-03 ($'000)	2003-04 ($'000)	2004-05 ($'000)
Outcome 1				
Funding for HIH Royal Commission related costs	4,000	-	-	-

Funding for HIH Royal Commission related costs

The Government has agreed to provide APRA with $4.0 million to meet its expenses incurred as a result of the Royal Commission into the failure of HIH. This funding will enable APRA to meet the cost of legal support, specialist technical consultants, general administration costs and the cost of extra staff seconded full time to Royal Commission work.

OTHER VARIATIONS TO APPROPRIATIONS

APRA is seeking an additional $2.1 million in agency outputs to fund increased supervision of regulated superannuation entities during 2001-02.

The increased activity will have an impact of $3.0 million in later years. The increased costs will be met through increases in the levy imposed under the various Supervisory Levy Imposition Acts and collected under the *Financial Institutions Supervisory Levies Collection Act 1998*, which is administered by APRA.

Map 2: Outcomes and output groups for the agency

Australian Prudential Regulation Authority

Chief Executive Officer: Mr Graeme Thompson

Overall outcome

Strong, sustainable economic growth and the improved wellbeing of Australians

Outcome 1

To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety, efficiency, competition, contestability and competitive neutrality

Total price of outputs: $60.5 million *(increase of $7.4 million)*
Agency outcomes appropriation: $58.5 million *(increase of $7.6 million)*

Output Group 1.1

Australian Prudential Regulation Authority

Output 1.1.1	Output 1.1.2	Output 1.1.3
Policy development	Surveillance programmes	Prudential advice
Total price: $4.7 million *(increase of $0.5 million)*	Total price: $47.6 million *(increase of $2.5 million)*	Total price: $8.1 million *(increase of $4.4 million)*
Appropriation: $4.5 million *(increase of $0.3 million)*	Appropriation: $46.0 million *(increase of $1.9 million)*	Appropriation: $8.0 million *(increase of $4.4 million)*

MEASURES: AGENCY SUMMARY

Table 1.1: Summary of measures since the 2001-02 Budget

Measure	Outcome	Output groups affected	Appropriations 2001-02 ($'000)			Appropriations 2002-03 ($'000)			Appropriations 2003-04 ($'000)			Appropriations 2004-05 ($'000)		
			Admin items	Dept outputs	Total	Admin items	Dept outputs	Total	Admin items	Dept outputs	Total	Admin items	Dept outputs	Total
Funding for HIH Royal Commission related costs	1	1.1	-	4,000	4,000	-	-	-	-	-	-	-	-	-
Total			-	4,000	4,000	-	-	-	-	-	-	-	-	-

BREAKDOWN OF ADDITIONAL ESTIMATES BY APPROPRIATIONS BILL

Table 1.2: Appropriation Bill (No. 3) 2001-02

	2000-01 available $'000	2001-02 budget $'000	2001-02 revised $'000	Additional estimates $'000	Reduced estimates $'000
DEPARTMENTAL OUTPUTS					
Outcome 1					
To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety, efficiency, competition, contestability and competitive neutrality	-	-	6,100	6,100	-
Total	-	-	6,100	6,100	-

SUMMARY OF STAFFING CHANGES

Table 1.4: Average staffing level (ASL)

	2001-02 Budget	2001-02 Revised	Variation
Outcome 1			
To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety, efficiency, competition, contestability and competitive neutrality	417	424	7
Total	417	424	7

Section 2: Revisions to outcomes and outputs

OUTCOMES AND OUTPUT GROUPS

There has been no change to APRA's outcome and output groups since the 2001-02 Portfolio Budget Statements.

Revised performance information and level of achievement — 2001-02

The variation to funding is to pre-existing outputs that will not effect the performance information under Outcome 1 since the 2001-02 Portfolio Budget Statements.

Section 3: Budgeted Financial Statements

Budgeted agency statement of revenues and expenses (budget operating statement)

This statement provides a picture of the expected financial results for APRA by identifying full accrual expenses and revenues, which highlights whether APRA is operating at a sustainable level.

Budgeted agency statement of assets and liabilities (budget balance sheet)

This statement shows the financial position of APRA. It enables decision makers to track the management of APRA's assets and liabilities.

Budgeted agency cash flow statement

This statement identifies expected cash flows from operating activities, investing activities and financing activities.

Agency capital budget statement

This statement shows all proposed capital expenditure funded through the Budget as appropriations or from internal sources.

Agency non-financial assets — summary of movement

This statement shows the budgeted movement in the AOFM's non-financial assets for the 2001-02 budget year.

Table 3.1: Budgeted agency statement of financial performance
for the period ended 30 June 2002

	Actual 2000-01 $'000	Revised budget 2001-02 $'000	Forward estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000
Revenues from ordinary activities					
Revenue from government	49,367	58,546	55,446	55,446	55,446
Sales of goods and services	1,265	1,101	1,408	1,408	1,458
Interest	1,439	800	1,000	1,100	1,200
Net gains from sales of assets	4	25	25	25	25
Total revenues from ordinary activities	52,075	60,472	57,879	57,979	58,129
Expenses from ordinary activities (excluding borrowing costs expense)					
Employees	33,347	35,895	36,455	36,455	36,455
Suppliers	15,523	20,053	16,785	16,785	16,785
Depreciation and amortisation	2,833	3,951	4,690	4,647	4,756
Write down of assets	1,510	-	-	-	-
Total expenses from ordinary activities (excluding borrowing costs expense)	53,213	59,899	57,930	57,887	57,996
Borrowing cost expense	2	-	-	-	-
Net surplus or deficit from ordinary activities	(1,140)	573	(51)	92	133
Gain or loss on extraordinary items	-	-	-	-	-
Net surplus or deficit	(1,140)	573	(51)	92	133
Capital use charge	-	-	-	-	-
Net surplus or deficit after capital use charge	(1,140)	573	(51)	92	133

Table 3.2: Budgeted agency statement of financial position *as at 30 June 2002*

	Actual 2000-01 $'000	Revised budget 2001-02 $'000	Forward estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000
ASSETS					
Financial assets					
Cash	13,796	7,463	9,768	11,951	13,555
Receivables	1,529	834	715	540	465
Accrued revenues	522	50	50	50	50
Total financial assets	15,847	8,347	10,533	12,541	14,070
Non-financial assets					
Infrastucture,plant and equipment	6,568	6,004	5,262	4,422	3,557
Intangibles	7,311	8,181	6,790	5,540	4,206
Other	134	120	120	120	120
Total non-financial assets	14,013	14,305	12,172	10,082	7,883
Total assets	29,860	22,652	22,705	22,623	21,953
LIABILITIES					
Debt					
Loans	5,440	-	-	-	-
Leases	24	-	-	-	-
Other	51	50	-	-	-
Total debt	5,515	50	-	-	-
Provisions and payables					
Employees	10,110	10,501	10,857	10,922	10,290
Suppliers	5,120	3,209	3,212	3,212	3,212
Other	2,750	1,954	1,749	1,510	1,339
Total provisions and payables	17,980	15,664	15,818	15,644	14,841
Total liabilities	23,495	15,714	15,818	15,644	14,841
EQUITY					
Capital	5,255	5,255	5,255	5,255	5,255
Reserves	558	558	558	558	558
Accumulated surpluses or deficits	552	1,125	1,074	1,166	1,299
Total equity	6,365	6,938	6,887	6,979	7,112
Current liabilities	17,254	9,176	9,401	9,280	9,701
Non-current liabilities	6,241	6,538	6,417	6,364	5,140
Current assets	15,982	8,467	10,653	12,661	14,190
Non-current assets	13,878	14,185	12,052	9,962	7,763

Table 3.3: Budgeted agency statement of cash flows
for the period ended 30 June 2002

	Actual 2000-01 $'000	Revised budget 2001-02 $'000	Forward estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000
OPERATING ACTIVITIES					
Cash received					
Appropriations for outputs	51,591	59,014	55,571	55,621	55,521
Sales of goods and services	1,410	1,450	1,486	1,533	1,583
Interest	1,362	877	1,000	1,100	1,200
Other	1,566	2,005	1,679	1,679	1,679
Total cash received	55,929	63,346	59,736	59,933	59,983
Cash used					
Employees	34,256	35,504	36,100	36,391	37,088
Suppliers	18,170	23,269	18,674	18,702	18,634
Interest	2	-	-	-	-
Other	123	125	125	125	125
Total cash used	52,551	58,898	54,899	55,218	55,847
Net cash from operating activities	3,378	4,448	4,837	4,715	4,136
INVESTING ACTIVITIES					
Cash received					
Proceeds from sales of property, plant and equipment	4	25	25	25	25
Total cash received	4	25	25	25	25
Cash used					
Purchase of property, plant and equipment	7,721	5,367	2,557	2,557	2,557
Total cash used	7,721	5,367	2,557	2,557	2,557
Net cash from investing activities	(7,717)	(5,342)	(2,532)	(2,532)	(2,532)
FINANCIAL ACTIVITIES					
Cash used					
Repayments of debt	5,439	5,439	-	-	-
Total cash used	5,439	5,439	-	-	-
Net cash from financing activities	(5,439)	(5,439)	-	-	-
Net increase in cash held	(9,778)	(6,333)	2,305	2,183	1,604
Cash at the beginning of the reporting period	23,574	13,796	7,463	9,768	11,951
Cash at the end of the reporting period	13,796	7,463	9,768	11,951	13,555

Table 3.4: Agency capital budget statement

	Actual 2000-01 $'000	Revised budget 2001-02 $'000	Forward estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriations	-	-	-	-	-
Funded internally by					
Departmental resources	7,985	4,257	2,557	2,557	2,557

Table 3.5: Agency non-financial assets — summary of movement (Budget year 2001-02)

	Land	Buildings	Total Land and Buidings	Specialist Military Equipment	Other Infrastructure Plant and Equipment	Total Infrastructure Plant and Equipment	Intangibles	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
GROSS VALUE								
As at 1 July 2001 (opening)	-	-	-	-	10,669	10,669	9,898	20,567
Additions	-	-	-	-	1,557	1,557	2,700	4,257
Disposals	-	-	-	-	(1,040)	(1,040)	-	(1,040)
Other movements	-	-	-	-	-	-	(1,028)	(1,028)
As at 30 June 2002 (closing)	-	-	-	-	11,186	11,186	11,570	22,756
ACCUMULATED DEPRECIATION								
As at 1 July 2001 (opening)	-	-	-	-	4,101	4,101	2,587	6,688
Disposals	-	-	-	-	(1,040)	(1,040)	-	(1,040)
Charge for the reporting period	-	-	-	-	2,121	2,121	1,830	3,951
Other movements	-	-	-	-	-	-	(1,028)	(1,028)
As at 30 June 2002 (closing)	-	-	-	-	5,182	5,182	3,389	8,571
Net book value As at 30 June 2002 (closing book value)	-	-	-	-	6,004	6,004	8,181	14,185
Net book value as at 1 July 2001 opening book value)	-	-	-	-	6,568	6,568	7,311	13,879
TOTAL ADDITIONS								
Self funded	-	-	-	-	1,557	1,557	2,700	4,257
Appropriations	-	-	-	-	-	-	-	-
Total	-	-	-	-	1,557	1,557	2,700	4,257

Table 3.6: Note of budgeted administered financial performance
for the period ended 30 June 2002

	Actual 2000-01 $'000	Revised budget 2001-02 $'000	Forward estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000
REVENUES					
Taxation					
Other taxes, fees and fines	62,027	67,114	70,114	70,114	70,114
Total taxation	62,027	67,114	70,114	70,114	70,114
Non-taxation					
Other sources of non-taxation revenues	639	500	-	-	-
Total non-taxation	639	500	-	-	-
Total revenues administered on behalf of the Government	62,666	67,614	70,114	70,114	70,114
EXPENSES					
Other	1,228	500	500	500	500
Total expenses administered on behalf of the Government	1,228	500	500	500	500

Table 3.7: Note of budgeted administered financial position
as at 30 June 2002

	Actual 2000-01 $'000	Revised budget 2001-02 $'000	Forward estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000
ASSETS					
Financial assets					
Receivables	493	493	493	493	493
Accrued revenues	306	-	-	-	-
Total financial assets	799	493	493	493	493
Total assets administered on behalf of the Government	799	493	493	493	493
LIABILITIES					
Provisions and payables					
Other	4,461	-	-	-	-
Total provisions and payables	4,461	-	-	-	-
Total liabilities administered on behalf of the Government	4,461	-	-	-	-
Current liabilities	4,461	-	-	-	-
Non-current liabilities	-	-	-	-	-
Current assets	799	493	493	493	493
Non-current assets	-	-	-	-	-

Table 3.8: Note of budgeted administered cash flows
for the period ended 30 June 2002

	Actual 2000-01 $'000	Revised budget 2001-02 $'000	Forward estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000
OPERATING ACTIVITIES					
Cash received					
Other taxes, fees and fines	68,460	67,114	69,614	69,614	69,614
Total cash received	68,460	67,114	69,614	69,614	69,614
Cash used					
Cash to Official Public Account	68,460	67,114	69,614	69,614	69,614
Total cash used	68,460	67,114	69,614	69,614	69,614
Net cash from operating activities	-	-	-	-	-
Net increase in cash held	-	-	-	-	-
Cash at beginning of reporting period	-	-	-	-	-
Cash at end of reporting period	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

Basis of accounting

The agency budgeted statements are prepared in compliance with Australian Accounting Standards, Accounting Guidance Releases and having regard to Statements of Accounting Concepts.

Budgeted agency statement of financial performance

Revenue from government

APRA is funded by a special appropriation for levies, late lodgment and late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*. The revenue reported by APRA is net of the levies retained in the Official Public Account to fund the Australian Securities and Investments Commission (ASIC) for consumer protection and market integrity functions, and to the Australian Taxation Office (ATO), for unclaimed moneys and lost member functions.

APRA is seeking to increase the level of regulatory activity of the superannuation industry. The increased activity will have an impact of $3.0 million in later years, with a forecast impact on the 2001-02 financial year of $2.1 million. The increased costs in the outer years will be met through increased levies.

Additional funding of $4.0 million is also being sought in the current year to meet the costs of preparing submissions to the Royal Commission.

Sales of goods and services

The revenue from sales of goods and service includes revenue from fee-for-service and cost-recovery activities, as well as revenue from the sub-letting of surplus accommodation leased by APRA.

Depreciation and amortisation

APRA's depreciation expense is increasing over time due to the development and implementation of infrastructure that will provide APRA staff with accurate and timely financial information about regulated entities and that will allow APRA to act as the central repository for this information. The introduction of this system has resulted in a shorter useful life and increased depreciation for some of APRA's legacy software systems.

Write down of assets

The write-down of assets in 2000-01 relates to a change in APRA's policy for recognition of assets. All assets which no longer met the new criteria or asset threshold were written down as at 1 July 2000.

Budgeted agency statement of financial position

Financial assets

These include cash, levies deposited in the Consolidate Revenue Fund but not drawn down at year end, levies invoiced but still outstanding at year end, and sundry agency debtors. All accounts receivable are recorded at their estimated recoverable amount.

Non-financial assets

Non-financial assets include leasehold improvements, furniture and fittings, computer hardware and office equipment. Intangible assets comprise capitalised software, including work-in-progress. APRA does not own any land or buildings.

Other non-financial assets include prepayments.

Debt

The loan represents the balance of $16.1 million appropriated in 1998-99 and $4.0 million appropriated in 1999-00 for the establishment of APRA. The final repayment is to be made before 30 June 2002.

Other debt includes lease incentives.

Provisions and payables

Provisions and payables represent liabilities for miscellaneous accruals and employee benefits, including accrued salary and leave entitlements.

Equity

The opening balance represents the net value of assets and liabilities transferred from the Reserve Bank of Australia (RBA) and the Insurance and Superannuation Commission (ISC) on the formation of APRA on 1 July 1998.

Budgeted agency statement of cash flows

Cash received from operating activities includes the appropriation for levies collected from industry less amounts collected on behalf of ATO and ASIC, cash from fees and charges, and interest earned on cash balances and investments held as government backed securities.

Cash used in investing activities includes cash spent on property, plant and equipment.

Cash used for financing activities is the cash used to repay the establishment funds.

Administered

Budgeted administered financial performance

Revenues

The taxation revenues are the levies, late lodgment and late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*. The revenue reported in this statement is higher than that reported by APRA in the budgeted agency statement of financial position by the amount retained in the Official Public Account to fund ASIC for consumer protection and market integrity functions, and to the ATO, for unclaimed moneys and lost member functions.

Budgeted administered financial position

Financial assets

The financial assets include levy debt invoiced and still outstanding at year end .

The accrued revenue is for levies on returns lodged but not invoiced at the end of the financial year.

Provisions and Payables

The 'Other' provisions and payables is revenue in advance for 2001-02 levies collected before the end of the 2000-01 financial year.

Budgeted administered cash flows

All cash collected by APRA for levies, late lodgment and late payment penalties under the *Financial Institutions Supervisory Levies Collection Act 1998* and transferred to the Official Public Account at the close of business each day.

Appendices 1 and 2

Appendix 1

Non-appropriation agency and administered revenue

	Budget estimate 2001-02 $'000	Revised estimate 2001-02 $'000
Departmental revenue		
Sales of goods and services	400	1,126
Interest	800	800
Total non-appropriation agency revenue	1,200	1,926
Appropriations	51,911	58,546
Total departmental revenue	53,111	60,472
Administered Revenue		
Financial Institutions Supervisory Levies Collection Act 1998	66,579	67,114
	-	500
Total non-appropriation administered revenue	66,579	67,614
Total administered revenue	66,579	67,614

Agency other income is derived from fees and charges and interest income. The increase in the estimated fees and charges is for the sub-lease of excess accommodation leased by APRA. In the 2001-02 Portfolio Budget Statements the estimated rental had been netted out against the cost of the accommodation.

Administered revenue is the levies collected under the *Financial Institutions Supervisory Levies Collection Act 1998* from bodies regulated by APRA. Each year an amount determined by the Treasurer is retained in CRF to fund certain activities undertaken by ASIC and the ATO ($14.9 million in 2000-01 and $14.7 million in 2001-02). The balance is transferred to APRA as a special appropriation.

The increase in the reported revenue recognised in relation to *the Financial Institutions Supervisory Levies Collection Act 1998* is due to a change in accounting policy since the 2001-02 Portfolio Budget Statements were prepared. After discussions with the Australian National Audit Office, the policy of recognising over- and under-collections of revenue as liabilities and assets, respectively, is no longer applied. This will result in an increase in revenue recognised for the 2001-02 financial year.

The increase in other revenue is for refunds of levies to financial institutions which have been made by APRA on behalf of the Commonwealth.

Appendix 2

Estimates of expenses from special appropriations

	Budget estimate 2001-02 $'000	Revised estimate 2001-02 $'000
ESTIMATED EXPENSES		
Australian Prudential Regulation Authority Act 1998	51,911	52,446
Total estimated Expenses	51,911	52,446