AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

Section 1: Overview, appropriations and budget measures summary

OVERVIEW

The role of the Australian Prudential Regulation Authority (APRA) is developing and enforcing regulation that promotes prudent behaviour by authorised deposit-taking institutions, insurance companies, superannuation funds and other financial institutions with the key aim of protecting the interests of their depositors, policy holders and members.

Prudential regulation focuses on the quality of an institution's systems for identifying, measuring and managing the various risks in its business.

In carrying out this role, APRA will enhance public confidence in Australia's financial institutions through a framework of prudential regulation, which balances financial safety and efficiency, competition, contestability and competitive neutrality. This is achieved by:

- the formulation and promulgation of prudential policy and practice to be observed by regulated institutions;
- effective surveillance and compliance programmes and, where relevant, remediation or enforcement measures, to give effect to the laws administered by APRA and to standards issued under those laws; and
- advice to government on the development of regulation and legislation affecting regulated institutions and the financial markets in which they operate.

APRA was established by the *Australian Prudential Regulation Authority Act 1998*. The *Commonwealth Authorities and Companies Act 1997* applies to APRA.

APPROPRIATIONS

The total appropriation for APRA in the 2002-03 Budget is $59.4 million. Table 1.1 on the following page provides this detail.

Australian Prudential Regulation Authority — appropriations 2002-03

Table 1.1: Appropriations and other revenue ($'000)

Outcome	Agency (price of outputs) ($'000)					Administered ($'000)				($'000)
	Revenue from government (appropriations)			Revenue from other sources[3]	Price of outputs[2]	Annual appropriations ($'000)		Special appropriations	Total administered appropriations	Total appropriations
	Bill No. 1	Special approps[4]	Total			Bill No. 1	Bill No. 2 (SPPs & NAOs)			
	(A)	(B)	(C = A+B) (C1)[1]	(D)	(E = C+D) (E1)[1]	(F)	(G)	(H)	(I = F+G+H)	(J=C+I)
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	-	59,375	59,375	2,875	62,250	-	-	-	-	59,375
			95%	5%	100%					
Total	-	59,375	(K1)[1] 59,375	2,875	62,250	-	-	-	-	59,375
						Agency capital (equity injections and loans)				-
						Administered capital				-
						Total appropriations				59,375

1. References C1 and E1 refer to information provided in Table 2.1. K1 refers to information provided in Table 3.1, Budgeted Statement of Financial Performance.
2. Refer to Budgeted Statement of Financial Performance in Table 3.1 for application of agency revenue.
3. Revenue from other sources includes other revenue from government (for example, resources free of charge) and revenue from other sources (for example, sales of goods and services). Non-appropriated agency revenues are detailed in Appendix 1.

Note: Percentage figures indicate the percentage contribution of revenue from government (agency appropriations) to the total price of outputs, by outcome.

MEASURES — AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY SUMMARY

Table 1.2: Summary of measures disclosed in the 2002-03 Budget

Measure	Outcome	Output Group affected	Appropriations budget 2002-03 ($'000)			Appropriations forward estimate 2003-04 ($'000)			Appropriations forward estimate 2004-05 ($'000)			Appropriations forward estimate 2005-06 ($'000)		
			Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total
Authorised deposit -taking institutions and insurance cost recovery	1	1.1	-	3,000	3,000	-	3,000	3,000	-	3,000	3,000	-	3,000	3,000

EQUITY INJECTIONS AND LOANS

APRA does not have an appropriation for an equity injection or loan in the 2002-03 Budget.

Section 2: Outcomes and outputs information

OUTCOMES AND OUTPUT GROUPS

The map below shows the relationship between Government outcomes and the contributing outputs for the Australian Prudential Regulation Authority (APRA). Financial detail for Outcome 1 by output appears in Table 2.1 while non-financial information for Outcome 1 appears in Table 2.2.

Map 2: Outcomes and output groups

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: $62.3 million
Agency outcomes appropriation: $59.4 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: $4.980 million	Total price: $52.913 million	Total price: $4.358 million
Appropriation: $4.750 million	Appropriation: $50.469 million	Appropriation: $4.156 million

CHANGES TO OUTCOMES AND OUTPUTS

There are no proposed changes to the outcome or outputs since the previous year.

OUTCOME 1 — DESCRIPTION

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.

Measures affecting Outcome 1

Authorised deposit-taking institutions and insurance cost recovery

The Government will provide the Australian Prudential Regulation Authority (APRA) with additional funding of $12 million for the prudential regulation of authorised deposit-taking institutions and insurance. This funding will allow APRA to undertake additional work necessary to allow more intense supervision of conglomerate groups and to improve APRA's ability to analyse operational risk, liability valuation and insurance risk.

APRA's costs will be recovered from industry.

See also the related revenue measure titled *Authorised deposit-taking institutions and insurance cost recovery* in the Treasury portfolio in *Budget Paper No. 2*.

OUTCOME 1 — RESOURCING

Table 2.1 shows how the 2002-03 appropriations translate to total resourcing for Outcome 1, including revenue from government (appropriation), revenue from other sources, and the total price of outputs.

Table 2.1: Total resources for Outcome 1 ($'000)

	Estimated actual 2001-02 $'000	Budget estimate 2002-03 $'000
Agency appropriations		
Output Group 1.1 - Australian Prudential Regulation Authority		
Output 1.1.1 - Policy development	4,688	4,750
Output 1.1.2 - Surveillance programmes	46,961	50,469
Output 1.1.3 - Prudential advice	8,052	4,156
Subtotal Output Group 1.1	59,701	59,375
Total revenue from government (appropriations)	59,701	(C1)(1) 59,375
Contributing to price of agency outputs	97%	95%
Revenue from other sources		
Miscellaneous fees and charges	1,282	1,875
Interest revenue	800	1,000
Total revenue from other sources	2,082	2,875
Total price from agency outputs		
(Total revenue from government and from other sources)	61,783	(E1)(1)62,250
Total estimated resourcing for Outcome 1		
(Total price of outputs and administered appropriations)	61,783	62,250

	2001-02	2002-03
Average staffing level (number)	412	448

(1) C1 and E1 show the links back to Table 1.1.

OUTCOME 1 — CONTRIBUTION OF OUTPUTS

The outputs of APRA aim to enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.

The outputs involve formulation and promulgation of prudential policy and practice to be observed by regulated institutions; effective surveillance and compliance programmes and, where relevant, remediation or enforcement measures, to give effect to the laws administered by APRA and to standards issued under those laws; and advice to Government on the development of regulation and legislation affecting regulated institutions and the financial markets in which they operate.

PERFORMANCE INFORMATION FOR OUTCOME 1

Table 2.2: Performance information for Outcome 1

Performance information for agency outputs	
Output Group 1.1 - Australian Prudential Regulation Authority	
Output 1.1.1 - Policy development	Issuance of prudential standards, guidelines and like instruments which effectively address risk management exposures of regulated industries; Comprehensive consultation with industry bodies, regulated institutions and professional associations on the development and implementation of prudential policy; Effective communication and cooperation with relevant national and international agencies including participation in the international development and harmonisation of prudential regulation policy and practice; and Promotion of public understanding of the role of APRA and informed debate on issues relating to prudential supervision through the publication of discussion papers, statistics and other relevant information.
Output 1.1.2 - Surveillance programmes	Prevention of financial loss by depositors or policy holders resulting from the failure of regulated institutions to observe laws, regulations or prudential standards administered by APRA; The identification of emerging prudential risks within regulated institutions through programmes of inspection and off-site surveillance and the supervision of remedial actions to effectively manage such risks; and The exercise by APRA of formal enforcement powers where necessary to protect the interests of depositor, policy holders, superannuation fund members or the public interest generally (including powers to issue directions, disqualify persons from positions of management or trust, transferring engagements, withdrawing licenses, or initiating prosecutions).

Table 2.2: Performance information for Outcome 1 (continued)

Performance information for agency outputs (continued)	
Output 1.1.3 - Prudential advice	Regular liaison meetings with the Department of the Treasury and with relevant Ministers and Parliamentary Committees; Recommendations to Government on prudential regulation policy development involving legislative implementation (including amendments to all Acts of Parliament administered by APRA and regulations thereunder); Timely briefings to Government on major items of policy interest emerging from APRA participation international fora; and Maintenance of a memorandum of understanding with the Department of the Treasury.

EVALUATIONS

Feedback will be sought from key clients on a regular basis on the effectiveness of policy and prudential advice.

The performance of surveillance programmes is evaluated through industry consultation on a periodic basis.

Section 3: Budgeted financial statements

The budgeted financial statements will form the basis of the financial statements that will appear in the Australian Prudential Regulation Authority (APRA)'s 2001-02 Annual Report and form the basis for the input into the Whole of Government Accounts. The financial statements should be read in conjunction with the accompanying notes.

AGENCY FINANCIAL STATEMENTS

Budgeted agency statement of financial performance

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 financial position

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

Budgeted agency statement of cash flows

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 movement in APRA's non-financial assets over the Budget year.

NOTES OF ADMINISTERED ACTIVITY

Details of transactions administered by the agency on behalf of the Commonwealth are to be shown in the following notes to the financial statements.

Note of budgeted administered financial performance

This note identifies the main revenues and expenses administered on behalf of the Government. It also discloses administered revenues from government and transfers to the Public Account.

Note of budgeted administered financial position

This note shows the assets and liabilities administered on behalf of the Government.

Note of budgeted administered cash flows

This note shows cash flows administered on behalf of the Government.

Table 3.1: Budgeted Agency Statement of Financial Performance
for the period ended 30 June

	Estimated actual 2001-02 $'000	Budget estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000
Revenue from ordinary activities					
Revenue from government	59,701	(K1)[1] 59,375	60,497	62,742	65,109
Sales of goods and services	1,101	1,850	1,850	1,900	1,900
Interest	800	1,000	1,100	1,200	1,200
Proceeds from sales of assets	25	25	25	25	25
Other	156	-	-	-	-
Total revenues from ordinary activities	61,783	62,250	63,472	65,867	68,234
Expenses from ordinary activities (excluding borrowing costs expense)					
Employees	33,804	36,110	37,554	39,057	40,619
Suppliers	22,003	19,938	20,536	21,152	21,687
Depreciation and amortisation	3,331	4,691	5,168	5,541	5,905
Total expenses from ordinary activities (excluding borrowing costs expense)	59,138	60,739	63,258	65,750	68,211
Borrowing costs expense	-	-	-	-	-
Net surplus or deficit from ordinary activities	2,645	1,511	214	117	23
Gain or loss on extraordinary items	-	-	-	-	-
Net surplus or deficit	2,645	1,511	214	117	23
Capital use charge	-	-	-	-	-
Net surplus or deficit after capital use charge	2,645	1,511	214	117	23

(1) K1 — shows the link back to Table 1.1.

Table 3.2: Budgeted Agency Statement of Financial Position
as at 30 June

	Estimated actual 2001-02 $'000	Budget estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000
ASSETS					
Financial assets					
Cash	8,608	10,902	12,751	14,788	16,442
Receivables	883	741	571	501	507
Accrued revenues	50	50	50	50	50
Total financial assets	9,541	11,693	13,372	15,339	16,999
Non-financial assets					
Infrastucture, plant and equipment	5,749	5,421	4,908	4,302	3,612
Intangibles	9,578	9,023	8,175	7,046	5,638
Other	120	120	120	120	120
Total non-financial assets	15,447	14,564	13,203	11,468	9,370
Total assets	24,988	26,257	26,575	26,807	26,369
LIABILITIES					
Debt					
Other	50	-	-	-	-
Total debt	50	-	-	-	-
Provisions and payables					
Employees	10,444	10,771	11,082	11,401	11,724
Suppliers	3,209	3,216	3,216	3,216	3,216
Other	2,276	1,749	1,543	1,339	554
Total provisions and payables	15,929	15,736	15,841	15,956	15,494
Total liabilities	15,979	15,736	15,841	15,956	15,494
EQUITY					
Capital	5,255	5,255	5,255	5,255	5,255
Reserves	558	558	558	558	558
Accumulated surpluses or deficits	3,196	4,708	4,921	5,038	5,062
Total equity	9,009	10,521	10,734	10,851	10,875
Current liabilities	9,441	9,282	9,474	10,248	10,222
Non-current liabilities	6,538	6,454	6,367	5,708	5,272
Current assets	9,660	11,813	13,492	15,458	17,118
Non-current assets	15,328	14,444	13,083	11,349	9,251

Table 3.3: Budgeted Agency Statement of Cash Flows
for the period ended 30 June

	Estimated actual 2001-02 $'000	Budget estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000
OPERATING ACTIVITIES					
Cash received					
Appropriations for outputs	60,169	59,500	60,672	62,817	65,109
Sales of goods and services	1,450	1,931	1,975	2,025	2,024
Interest	877	1,000	1,100	1,200	1,200
Other	2,356	1,994	2,054	2,115	2,169
Total cash received	64,852	64,425	65,801	68,157	70,502
Cash used					
Employees	33,470	35,783	37,244	38,737	40,296
Suppliers	25,141	22,441	22,801	23,477	24,645
Other	125	125	125	125	125
Total cash used	58,736	58,349	60,170	62,339	65,066
Net cash from operating activities	6,116	6,076	5,631	5,818	5,436
INVESTING ACTIVITIES					
Cash received					
Proceeds from sales of property, plant and equipment	25	25	25	25	25
Total cash received	25	25	25	25	25
Cash used					
Purchases of property, plant and equipment	5,890	3,807	3,807	3,807	3,807
Total cash used	5,890	3,807	3,807	3,807	3,807
Net cash from investing activities	(5,865)	(3,782)	(3,782)	(3,782)	(3,782)
FINANCING ACTIVITIES					
Cash used					
Repayments of debt	5,439	-	-	-	-
Total cash used	5,439	-	-	-	-
Net cash from financing activities	(5,439)	-	-	-	-
Net increase (decrease) in cash held	(5,188)	2,294	1,849	2,036	1,654
Cash at the beginning of the reporting period	13,796	8,608	10,902	12,751	14,787
Cash at the end of the reporting period	8,608	10,902	12,751	14,787	16,441

Table 3.4: Agency Capital Budget Statement

	Estimated actual 2001-02 $'000	Budget estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000
PURCHASE OF NON CURRENT ASSETS					
Funded by capital appropriation	-	-	-	-	-
Funded internally by agency resources	4,780	3,807	3,807	3,807	3,807
Total	4,780	3,807	3,807	3,807	3,807

Table 3.5: Agency Non-financial Assets — Summary of Movement (Budget year 2002-03)

	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
Carrying amount at the start of year	-	-	-	-	5,749	5,749	9,579	15,328
Additions	-	-	-	-	1,807	1,807	2,000	3,807
Disposals	-	-	-	-	-	-	-	-
Revaluation increments	-	-	-	-	-	-	-	-
Recoverable amount write-downs	-	-	-	-	-	-	-	-
Net transfers free of charge	-	-	-	-	-	-	-	-
Depreciation/amortisation expense	-	-	-	-	(2,135)	(2,135)	(2,556)	(4,691)
Write-off of assets	-	-	-	-	-	-	-	-
Carrying amount at the end of year	-	-	-	-	5,421	5,421	9,023	14,444
Total additions								
Self funded	-	-	-	-	1,807	1,807	2,000	3,807
Appropriations	-	-	-	-	-	-	-	-
Total	-	-	-	-	1,807	1,807	2,000	3,807

Table 3.7: Note of Budgeted Financial Performance Administered on behalf of Government *for the period ended 30 June*

	Estimated actual 2001-02 $'000	Budget estimates 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000
REVENUES					
Other sources of non-taxation revenues	68,477	74,043	75,165	77,410	79,777
Total non-taxation	68,477	74,043	75,165	77,410	79,777
Total revenues administered on behalf of government	68,477	74,043	75,165	77,410	79,777
EXPENSES					
Other	500	500	500	500	500
Total expenses administered on behalf of government	500	500	500	500	500

Table 3.8: Note of Budgeted Financial Position Administered on behalf of Government *as at 30 June*

	Estimated actual 2001-02 $'000	Budget estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000
ASSETS					
Financial assets					
Receivables	400	350	200	150	150
Total financial assets	400	350	200	150	150
Total assets administered on behalf of government	400	350	200	150	150
Current assets	400	350	200	150	150
Non-current assets	-	-	-	-	-

Table 3.9: Note of Budgeted Administered Cash Flows
for the period ended 30 June

	Estimated actual 2001-02 $'000	Budget estimate 2002-03 $'000	Forward estimate 2003-04 $'000	Forward estimate 2004-05 $'000	Forward estimate 2005-06 $'000
OPERATING ACTIVITIES					
Cash received					
Other taxes, fees and fines	68,570	74,093	75,315	77,460	79,777
Total cash received	68,570	74,093	75,315	77,460	79,777
Cash used					
Cash to Official Public Account	68,570	74,093	75,315	77,460	79,777
Total cash used	68,570	74,093	75,315	77,460	79,777
Net cash from operating activities	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

Agency Financial Statements and Administered Items Notes

Under the Commonwealth's accrual budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies control (Agency transactions) are separately budgeted for and reported on from transactions agencies do not have control over (Administered transactions). This ensures that agencies are only held fully accountable for the transactions over which they have control.

Agency assets, liabilities, revenues and expenses in relation to an agency or authority are those which are controlled by the agency. Agency expenses include employee and supplier expenses and other administrative costs, which are incurred by the agency in providing its goods and services.

Administered items are revenues, expenses, assets and liabilities which are managed by an agency or authority on behalf of the Government according to set Government directions. Administered expenses include subsidies, grants and personal benefit payments and Administered revenues include taxes, fees, fines and excises.

Basis of accounting

The financial statements have been prepared on an accrual basis in accordance with the historical cost convention.

Budgeted agency statement of financial performance

Goods and Services Tax

The budgeted financial statements have been prepared in accordance with the Goods and Services Tax (GST) accounting guidelines of the Urgent Issues Group (UIG) of the Australian Accounting Standards Board. The UIG consensus requires that expenses and assets be accounted for net of recoverable GST, revenues be accounted for net of GST payable and that cash flows and accounts payable and receivable be reported gross. Appropriations are thus net of recoverable GST amounts.

Revenue from government

APRA is funded by a special appropriation for levies, late lodgement 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 monies and lost member functions.

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.

Budgeted agency statement of financial position

Financial assets

These include cash, levies invoiced but still outstanding at the financial year end and other revenue receivables.

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 1999-2000 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 and the Insurance and Superannuation Commission 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.

Note of budgeted administered financial performance

Revenues

The taxation revenues are the levies, late lodgement 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.

Note of budgeted administered financial position

Financial assets

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

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 levies collected before the end of the financial year for supervision in the following financial year.

Note of budgeted administered cash flows

All cash collected by APRA for levies, late lodgement 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.

APPENDIX 1: RECEIPTS FROM INDEPENDENT SOURCES

Receipts from independent sources

	Estimated revenue 2001-02 $'000	Estimated revenue 2002-03 $'000
AGENCY REVENUE		
Non-appropriation agency revenue		
Sales of goods and services	1,282	1,875
Interest	800	1,000
Total non-appropriation agency revenue	2,082	2,875