# AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

## Section 1: Overview, appropriations and budget measures summary

### AGENCY 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 AND RESOURCING

The total appropriation for APRA in the 2003-04 Budget is $68.6 million. Table 1.1 on the following page provides this detail.

Table 1.2 details funding provided for new budget measures in 2003-04.

## Australian Prudential Regulation Authority — appropriations 2003-04

### Table 1.1: Appropriations and other revenue

| Outcome | Agency (price of outputs) $'000 | | | | | Administered $'000 | | | | $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Revenues from government (appropriations) | | | Revenue from other sources[3] | Price of outputs[2] | Annual appropriations | | Special appropriations | Total administered appropriations | Total appropriations |
| | Bill No. 1 | Special approps[5] | 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 | - | 68,630 | 68,630 | 5,025 | 73,655 | - | - | - | - | 68,630 |
| | | | 93% | 7% | 100% | | | | | |
| **Total** | - | 68,630 | (K1)[1] 68,630 | 5,025 | 73,655 | - | - | - | - | 68,630 |
| | | | | | | | Agency capital (equity injections and loans) | | | - |
| | | | | | | | Administered capital | | | - |
| | | | | | | | Total appropriations | | | 68,630 |

(1) C1 and E1 refer to information provided in Table 2.1, Total resources for Outcome 1. K1 refers to information provided in Table 3.1, Budgeted Agency Statement of Financial Performance.
(2) Refer to Table 3.1, Budgeted Agency Statement of Financial Performance for application of agency revenue.
(3) Revenue from other sources includes other revenues from government (for example, resources free of charge) and revenue from other sources (for example, goods and services). Non-appropriated agency revenues are detailed in Table 1.3.
Note: Percentage figures indicate the percentage contribution of revenues 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 2003-04 Budget**

| Measure | Outcome | Output Groups affected | Appropriations budget 2003-04 $'000 | | | Appropriations forward estimate 2004-05 $'000 | | | Appropriations forward estimate 2005-06 $'000 | | | Appropriations forward estimate 2006-07 $'000 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Admin expenses | Agency outputs | Total | Admin expenses | Agency outputs | Total | Admin expenses | Agency outputs | Total | Admin expenses | Agency outputs | Total |
| Australian Prudential Regulation Authority - strengthened capabilities in prudential regulation | 1 | 1.1 | - | 5,850 | 5,850 | - | 5,216 | 5,216 | - | 5,336 | 5,336 | - | 5,458 | 5,458 |

## AGENCY REVENUES

### Table 1.3: Agency revenues

| | Estimated revenue 2002-03 $'000 | Estimated revenue 2003-04 $'000 |
|---|---|---|
| **ESTIMATED AGENCY REVENUES** | | |
| **Non-appropriation agency revenues** | | |
| Goods and services | 1,294 | 1,350 |
| Interest | 1,194 | 1,250 |
| Sub-lease rental | 1,014 | 440 |
| Other | 4,232 | 1,985 |
| **Total estimated agency revenues** | 7,734 | 5,025 |

Goods and services include cost recoveries under Sections 9 and 51 of the *Australian Prudential Regulation Act 1998* for elective services. Revenue from other sources includes the recovery of cost of statistical services and work undertaken on the implementation of the Basel Accord on capital adequacy models.

## EQUITY INJECTIONS AND LOANS

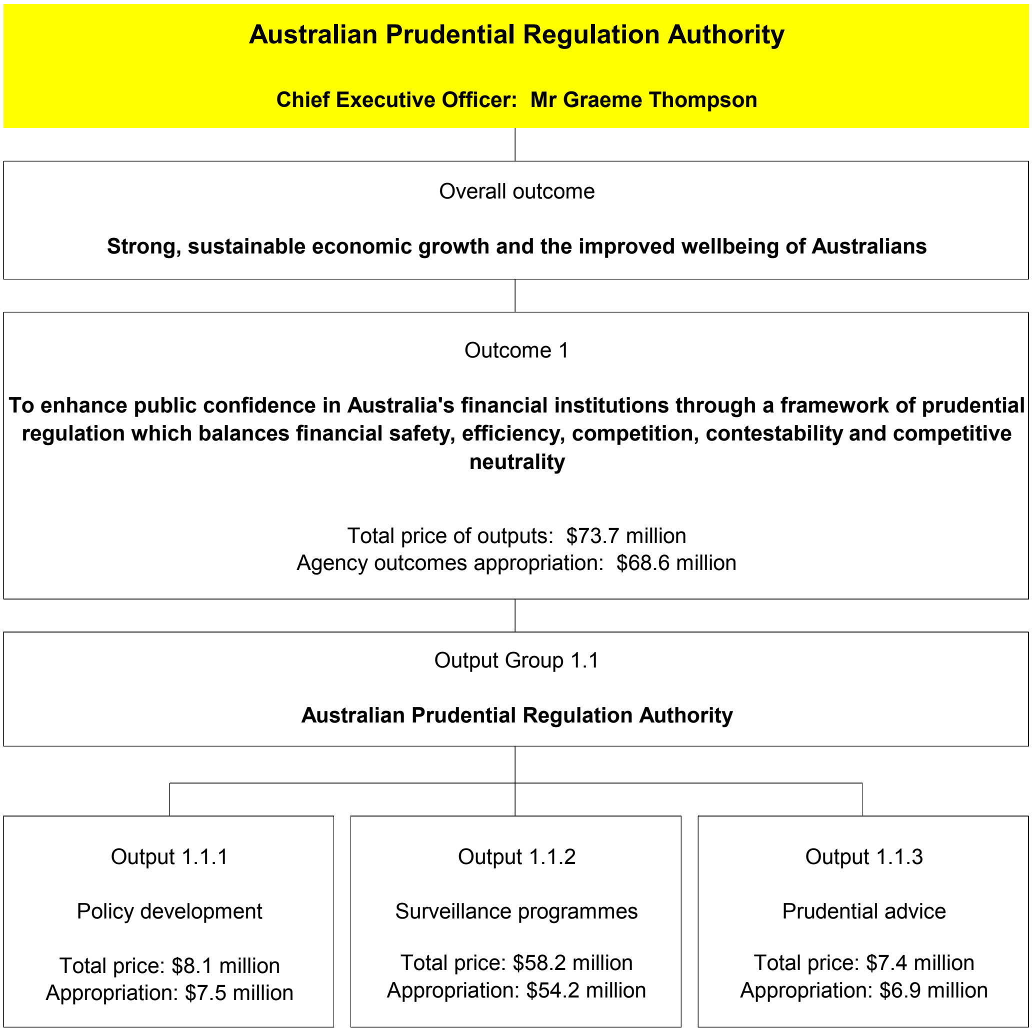
APRA does not have an appropriation for an equity injection or loan in the 2003-04 Budget.

# 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**



### Output cost attribution

Outputs are priced by costing the time allocated to work carried out on policy development, surveillance programmes and prudential advice. The costs attributed to outputs are collected in cost pools for direct cost with associated allocated overheads. Support costs are allocated through the apportionment of unallocated time in the same ratio as direct costs.

## CHANGES TO OUTCOMES AND OUTPUTS

There are no proposed changes to the outcome or outputs.

## TRENDS IN RESOURCING ACROSS OUTCOME

There is only one outcome. The price of the outcome has risen from $45.4 million in 1998-99 to $68.6 million for 2003-04. Within this period, the outcome has been expanded to include the State based Financial Institutions scheme and to encompass the supervision of new risks in the financial system.

## 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

#### Australian Prudential Regulation Authority — strengthened capabilities in prudential regulation

The Government will provide $21.9 million over four years (with ongoing funding subject to review by October 2006) to enable the Australian Prudential Regulation Authority to employ additional technical experts and attract and retain appropriately skilled front-line supervisory staff to enhance its supervisory and information technology capabilities.

Funding will be fully recovered through levies on the financial sector.

See also the related revenue measure titled *Australian Prudential Regulation Authority — strengthened capabilities in prudential regulation* in the Treasury portfolio.

## OUTCOME 1 — RESOURCING

Table 2.1 shows how the 2003-04 appropriations translate to total resourcing for Outcome 1, including revenues from government (appropriations), revenue from other sources, and the total price of outputs.

**Table 2.1: Total resources for Outcome 1**

| | Estimated actual 2002-03 $'000 | | Budget estimate 2003-04 $'000 |
|---|---|---|---|
| **Agency appropriations** | | | |
| Output Group 1.1 - Australian Prudential Regulation Authority | | | |
| Output 1.1.1 - Policy development | 7,719 | | 7,549 |
| Output 1.1.2 - Surveillance programmes | 47,500 | | 54,218 |
| Output 1.1.3 - Prudential advice | 4,156 | | 6,863 |
| **Total revenues from government (appropriations)** | 59,375 | (C1)[1] | 68,630 |
| **Contributing to price of agency outputs** | 89% | | 93% |
| **Revenue from other sources** | | | |
| Goods and services | 1,294 | | 1,350 |
| Interest | 1,194 | | 1,250 |
| Sub-lease rental | 1,014 | | 440 |
| Other | 4,232 | | 1,985 |
| **Total revenue from other sources** | 7,734 | | 5,025 |
| **Total price from agency outputs** (Total revenues from government and from other sources) | 67,109 | (E1)[1] | 73,655 |
| **Total estimated resourcing for Outcome 1** (Total price of outputs and administered appropriations) | 67,109 | | 73,655 |

| | 2002-03 | 2003-04 |
|---|---|---|
| **Average staffing level (number)** | 450 | 475 |

(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;<br><br>Comprehensive consultation with industry bodies, regulated institutions and professional associations on the development and implementation of prudential policy;<br><br>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<br><br>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;<br><br>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<br><br>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;<br><br>Recommendations to Government on prudential regulation policy development involving legislative implementation (including amendments to all Acts of Parliament administered by APRA and regulations thereunder);<br><br>Timely briefings to Government on major items of policy interest emerging from APRA participation in international fora; and<br><br>Maintenance of a memorandum of understanding with the Department of the Treasury. |

## EVALUATIONS

Performance will be measured on a quarterly basis through an integrated programme of business planning, measurement and reporting. The business plan is expressed through six key results areas (KRAs), three of which represent the outputs described in Table 2.2 plus three KRAs covering staff, infrastructure and accountability.

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

The performance of surveillance programmes is evaluated both internally through the measurement processes, by the Quality and Consistency Group and internal audit, and externally 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 2003-04 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.

## ANALYSIS OF BUDGETED AGENCY FINANCIAL STATEMENTS

The Statement of Financial Performance (Table 3.1) shows an increase in appropriations from $59.4 million forecast for the current year to $68.6 million for 2003-04. The increase reflects the increase in departmental costs forecast for the current year from $67.1 million to $72.1 million for 2003-04. This includes the new policy proposal aimed at enhancing and strengthening APRA's capability in supervision of regulated entities. It also reflects the additional resources needed to implement additional statistical services and assistance provided to Authorised Deposits Institutions in implementing the Basel Capital Accord.

Other revenues in 2002-03 were higher than the normal trend due to recovery of expenses outlaid during the HIH Royal Commission from APRA's insurer. As a result, other revenue in 2003-04 will return to more normal levels.

Employee expenses will increase from $39.6 million to $44.5 million in 2003-04. This will support an increase in supervisory and specialist technical advisors and additional staff to carry out the intentions of the new budget measure.

Suppliers' costs in 2003-04 have been budgeted to be about $0.8 million less than the prior year due to the reduced cost of legal and other services, following on from conclusion of the HIH Royal Commission and reductions in discretionary expenditures through efficiency programmes. The savings are partly offset by increases in the floor area and cost of leased premises.

The higher than normal budgeted surplus for 2003-04 is needed to increase reserves. APRA is sometimes faced with the need to engage inspectors to supervise the activities of institutions that have been assessed to be at some risk, and the reserves enable this action to be taken quickly without the need to resort to special financial supplementation. Timely action of this nature may avert more serious outcomes.

The Departmental Statement of Financial Position (Table 3.2) shows a small increase in financial assets between 2002-03 and 2003-04, brought about by an increase in cash offset by a reduction in receivables. Over the past two years, APRA has made a concerted effort to reduce receivables to a manageable level and maintain that momentum into the outer years.

Non-financial assets are expected to increase by $0.9 million in 2003-04, funded entirely by revenue from non-appropriation sources. It will be seen that while infrastructure, plant and equipment will gradually decline in value over the current and outer years, this will be offset by increases in intangibles. APRAs supervision, risk assessment and assurance activities are substantially enhanced by access to extensive databases, represented in large part by capitalised in-house developed software. The bulk of the additional assets will be additions and enhancements to this software.

Provisions consist mainly of employee entitlements to annual and long service leave, together with some relatively minor amounts relating to making good leased premises. Payables are expected to reduce gradually over the outer years.

The retained surpluses in equity reflect the earlier stated aim of building these back up to levels determined as being the minimum required to meet unforseen business needs in terms of supervision of at risk institutions (5 per cent-10 per cent of levies).

The Departmental Statement of Cash Flows (Table 3.3) reflects the increase in appropriations and other revenue discussed earlier. A cash pool at the end of June is needed to overcome expected cash flow timing delays arising from the billing of non superannuation entities during the month of June, and the need to leave the initial cash collected in the Official Public Account to fund the activities of Australian Securities and Investments Commission (ASIC) and Australian Taxation Office (ATO).

Tables 3.4 and 3.5 show the amount budgeted for capital and the effect on non-financial assets in 2003-04. As observed above, the additions are fully funded internally by APRA's own resources, and the bulk of the acquisitions ($2.6 million) will be for in-house developed software.

The Administered Statements show the total amount collected and administered by APRA, on behalf of the Government, in supervisory levies from the finance industry. The cash collected is swept daily from the APRA account to the Official Public Account, from which APRA, in turn, draws down the amounts appropriated to it by the parliament.

## 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 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 Official 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 2002-03 $'000 | | Budget estimate 2003-04 $'000 | Forward estimate 2004-05 $'000 | Forward estimate 2005-06 $'000 | Forward estimate 2006-07 $'000 |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| **Revenues from ordinary activities** | | | | | | |
| Revenues from government | 59,375 | (K1)[1] | 68,630 | 69,221 | 71,993 | 73,987 |
| Goods and services | 1,294 | | 1,350 | 1,400 | 1,500 | 1,600 |
| Interest | 1,194 | | 1,250 | 1,300 | 1,350 | 1,400 |
| Other | 5,246 | | 2,425 | 2,425 | 2,425 | 2,425 |
| **Total revenues from ordinary activities** | 67,109 | | 73,655 | 74,346 | 77,268 | 79,412 |
| **EXPENSES** | | | | | | |
| **Expenses from ordinary activities (excluding borrowing costs expense)** | | | | | | |
| Employees | 39,648 | | 44,468 | 46,188 | 48,250 | 49,483 |
| Suppliers | 21,083 | | 20,299 | 20,793 | 21,089 | 21,835 |
| Depreciation and amortisation | 3,475 | | 3,911 | 4,777 | 5,315 | 5,456 |
| Other | 2,900 | | 3,400 | 2,470 | 2,590 | 2,590 |
| **Total expenses from ordinary activities (excluding borrowing costs expense)** | 67,106 | | 72,078 | 74,228 | 77,244 | 79,364 |
| Borrowing costs expense | - | | - | - | - | - |
| **Operating surplus or deficit from ordinary activities** | 3 | | 1,577 | 118 | 24 | 48 |
| Gain or loss on extraordinary items | - | | - | - | - | - |
| **Net surplus or deficit** | 3 | - | 1,577 | 118 | 24 | 48 |

(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 2002-03 $'000 | Budget estimate 2003-04 $'000 | Forward estimate 2004-05 $'000 | Forward estimate 2005-06 $'000 | Forward estimate 2006-07 $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Financial assets** | | | | | |
| Cash | 10,350 | 11,028 | 11,920 | 12,685 | 12,937 |
| Receivables | 1,000 | 753 | 582 | 509 | 515 |
| Accrued revenues | 50 | 50 | 50 | 50 | 50 |
| **Total financial assets** | 11,400 | 11,831 | 12,552 | 13,244 | 13,502 |
| **Non-financial assets** | | | | | |
| Infrastructure, plant and equipment | 6,225 | 7,114 | 5,376 | 4,582 | 3,760 |
| Intangibles | 7,626 | 7,633 | 8,901 | 9,187 | 9,360 |
| Other | 120 | 120 | 120 | 120 | 121 |
| **Total non-financial assets** | 13,971 | 14,867 | 14,397 | 13,889 | 13,241 |
| **Total assets** | 25,371 | 26,698 | 26,949 | 27,133 | 26,743 |
| **LIABILITIES** | | | | | |
| **Debt** | | | | | |
| Other | 50 | - | - | - | - |
| **Total debt** | 50 | - | - | - | - |
| **Provisions** | | | | | |
| Employees | 13,712 | 14,039 | 14,379 | 14,744 | 15,092 |
| **Total provisions** | 13,712 | 14,039 | 14,379 | 14,744 | 15,092 |
| **Payables** | | | | | |
| Suppliers | 2,276 | 1,749 | 1,543 | 1,339 | 553 |
| **Total payables** | 2,276 | 1,749 | 1,543 | 1,339 | 553 |
| **Total liabilities** | 16,038 | 15,788 | 15,922 | 16,083 | 15,645 |
| **EQUITY** | | | | | |
| **Parent entity interest** | | | | | |
| Reserves | 558 | 558 | 558 | 558 | 558 |
| Retained surpluses or accumulated deficits | 3,520 | 5,097 | 5,214 | 5,237 | 5,285 |
| **Total parent entity interest** | 4,078 | 5,655 | 5,772 | 5,795 | 5,843 |
| **Outside equity interest** | | | | | |
| Contributed equity | 5,255 | 5,255 | 5,255 | 5,255 | 5,255 |
| **Total outside equity interest** | 5,255 | 5,255 | 5,255 | 5,255 | 5,255 |
| **Total equity** | 9,333 | 10,910 | 11,027 | 11,050 | 11,098 |
| **Total assets and liabilities by maturity** | | | | | |
| **Current assets** | 11,520 | 11,951 | 12,672 | 13,364 | 13,623 |
| **Non-current assets** | 13,851 | 14,747 | 14,277 | 13,769 | 13,120 |
| **Current liabilities** | 9,024 | 8,852 | 9,059 | 9,867 | 9,851 |
| **Non-current liabilities** | 7,014 | 6,936 | 6,863 | 6,216 | 5,794 |

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

| | Estimated actual 2002-03 $'000 | Budget estimate 2003-04 $'000 | Forward estimate 2004-05 $'000 | Forward estimate 2005-06 $'000 | Forward estimate 2006-07 $'000 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| **Cash received** | | | | | |
| Appropriations | 59,350 | 68,855 | 69,395 | 72,067 | 73,987 |
| Goods and services | 1,713 | 995 | 1,100 | 1,211 | 1,320 |
| Interest | 1,194 | 1,250 | 1,300 | 1,350 | 1,400 |
| Other | 7,888 | 4,975 | 5,025 | 5,053 | 5,116 |
| **Total cash received** | 70,145 | 76,075 | 76,820 | 79,681 | 81,823 |
| **Cash used** | | | | | |
| Employees | 38,609 | 44,142 | 45,849 | 47,885 | 49,138 |
| Suppliers | 28,180 | 26,473 | 25,797 | 26,249 | 27,652 |
| **Total cash used** | 66,789 | 70,615 | 71,646 | 74,134 | 76,790 |
| **Net cash from operating activities** | 3,356 | 5,460 | 5,174 | 5,547 | 5,033 |
| **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 | 3,447 | 4,807 | 4,307 | 4,807 | 4,806 |
| **Total cash used** | 3,447 | 4,807 | 4,307 | 4,807 | 4,806 |
| **Net cash from investing activities** | (3,422) | (4,782) | (4,282) | (4,782) | (4,781) |
| **Net increase/(decrease) in cash held** | (66) | 678 | 892 | 765 | 252 |
| Cash at the beginning of the reporting period | 10,416 | 10,350 | 11,028 | 11,920 | 12,685 |
| Cash at the end of the reporting period | 10,350 | 11,028 | 11,920 | 12,685 | 12,937 |

**Table 3.4: Agency Capital Budget Statement**

| | Estimated actual 2002-03 $'000 | Budget estimate 2003-04 $'000 | Forward estimate 2004-05 $'000 | Forward estimate 2005-06 $'000 | Forward estimate 2006-07 $'000 |
|---|---|---|---|---|---|
| **PURCHASE OF NON-CURRENT ASSETS** | | | | | |
| Funded by capital appropriations | - | - | - | - | - |
| Funded internally by agency resources | 3,247 | 4,807 | 4,307 | 4,807 | 4,806 |
| **Total** | 3,247 | 4,807 | 4,307 | 4,807 | 4,806 |

**Table 3.5: Agency Non-financial Assets — Summary of Movement (Budget year 2003-04)**

| | Land | Buildings | Specialist military equipment | Other infrastructure plant and equipment | Heritage and cultural assets | Computer software | Other intangibles | Total |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Carrying amount at the start of year | - | - | - | 6,225 | - | - | 7,626 | 13,851 |
| Additions | - | - | - | 2,200 | - | - | 2,607 | 4,807 |
| Disposals | - | - | - | - | - | - | - | - |
| Revaluation increments | - | - | - | - | - | - | - | - |
| Recoverable amount write-downs | - | - | - | - | - | - | - | - |
| Net transfers free of charge | - | - | - | - | - | - | - | - |
| Depreciation/amortisation expense | - | - | - | (1,311) | - | - | (2,600) | (3,911) |
| Write-off of assets | - | - | - | - | - | - | - | - |
| Carrying amount at the end of year | - | - | - | 7,114 | - | - | 7,633 | 14,747 |
| **Total additions** | | | | | | | | |
| Self funded | - | - | - | - | - | - | - | - |
| Appropriations | - | - | - | 2,200 | - | - | 2,607 | 4,807 |
| **Total** | - | - | - | 2,200 | - | - | 2,607 | 4,807 |

**Table 3.6: Note of Budgeted Financial Performance Administered on behalf of the Government — for the period ended 30 June**

| | Estimated actual 2002-03 $'000 | Budget estimate 2003-04 $'000 | Forward estimate 2004-05 $'000 | Forward estimate 2005-06 $'000 | Forward estimate 2006-07 $'000 |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| **Non-taxation** | | | | | |
| Other | 74,043 | 85,433 | 86,024 | 88,796 | 90,790 |
| **Total non-taxation** | 74,043 | 85,433 | 86,024 | 88,796 | 90,790 |
| **Total revenues administered on behalf of the Government** | 74,043 | 85,433 | 86,024 | 88,796 | 90,790 |
| **EXPENSES** | | | | | |
| Other | 500 | 500 | 500 | 500 | 500 |
| **Total expenses administered on behalf of the Government** | 500 | 500 | 500 | 500 | 500 |

**Table 3.7: Note of Budgeted Financial Position Administered on behalf of the Government — as at 30 June**

| | Estimated actual 2002-03 $'000 | Budget estimate 2003-04 $'000 | Forward estimate 2004-05 $'000 | Forward estimate 2005-06 $'000 | Forward estimate 2006-07 $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Financial assets** | | | | | |
| Receivables | 350 | 200 | 150 | 150 | 150 |
| **Total financial assets** | 350 | 200 | 150 | 150 | 150 |
| **Total assets administered on behalf of the Government** | 350 | 200 | 150 | 150 | 150 |
| **Current assets** | 350 | 200 | 150 | 150 | 150 |
| **Non-current assets** | - | - | - | - | - |

**Table 3.8: Note of Budgeted Administered Cash Flows — for the period ended 30 June**

| | Estimated actual 2002-03 $'000 | Budget estimate 2003-04 $'000 | Forward estimate 2004-05 $'000 | Forward estimate 2005-06 $'000 | Forward estimate 2006-07 $'000 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| **Cash received** | | | | | |
| Other taxes, fees and fines | 74,143 | 85,533 | 86,124 | 88,896 | 90,890 |
| **Total cash received** | 74,143 | 85,533 | 86,124 | 88,896 | 90,890 |
| **Cash used** | | | | | |
| Cash to Official Public Account | 74,143 | 85,533 | 86,124 | 88,896 | 90,890 |
| **Total cash used** | 74,143 | 85,533 | 86,124 | 88,896 | 90,890 |
| **Net cash from operating activities** | - | - | - | - | - |
| **Net increase (decrease) in cash held** | - | - | - | - | - |
| Cash at beginning of reporting period | - | - | - | - | - |
| Cash at end of reporting period | - | - | - | - | - |

## NOTES TO THE FINANCIAL STATEMENTS

### Agency Financial Statements and Notes to Administered Items

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.

#### Revenues 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

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.

## 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 monies and lost member functions.

## Note of budgeted administered financial position

### Financial assets

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

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.

# Section 4: Purchaser/provider and cost recovery arrangements

## SUMMARY OF COST RECOVERY IMPACT STATEMENT

Cost recovery arrangements have been negotiated with the large Authorised Deposit Taking Institutions for services in relation to the implementation of the Basel Accord. While the final amounts have yet to be determined, the budgeted impact of this arrangement in 2003-04 is expected to result in revenue flows of the order of $1.5 million. Cost recovery arrangements are currently being negotiated with the Australian Bureau of Statistics and Reserve Bank of Australia for the provision of certain statistical services provided to them. Recoveries are estimated to be about $0.9 million for these services.

These costs are reflected in the Departmental Statement of Financial Performance (Table 3.1) as part of other revenue from ordinary activities.