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 2004-05 Budget is $80.5 million. Table 1.1 on the following page provides this detail.

Table 1.2 details funding provided for new budget measures in 2004-05.

Australian Prudential Regulation Authority — appropriations 2004-05

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[4]	Total			Bill No. 1	Bill No. 2 (SPPs & NAOs)			
	(A)	(B)	(C = A+B)	(D)	(E = C+D)	(F)	(G)	(H)	(I = F+G+H)	(J = C+I)
			(C1)[1]		(E1)[1]					
Outcome 1 - To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety, effciency, competition, contestability and competitive neutrality	1,000	76,452	77,452	6,523	83,975	-	-	-	-	77,452
			92%	8%	100%					
Total	1,000	76,452	(K1)[1] 77,452	6,523	83,975	-	-	-	-	77,452
						Agency capital (equity injections and loans)			(K3)[1]	3,000
						Administered capital				-
						Total appropriations				80,452

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. K3 refers to information provided in Table 3.4, Agency Capital Budget Statement.
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.
4. Estimated expenses from special appropriations are shown in Table 1.5.

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 2004-05 Budget

Measure	Outcome	Output Groups affected	2004-05 appropriations budget $'000			2005-06 appropriations forward estimate $'000			2006-07 appropriations forward estimate $'000			2007-08 appropriations forward estimate $'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	1	1.1	-	11,400	11,400	-	12,400	12,410	-	11,693	11,693	-	11,900	11,900
Australian Prudential Regulation Authority - strengthened capabilities *(Related capital)*	1	1.1	-	-	-	-	-	-	-	-	-	-	-	-

AGENCY REVENUES

Table 1.3: Agency revenues

	2003-04 estimated revenue $'000	2004-05 estimated revenue $'000
ESTIMATED AGENCY REVENUES		
Non-appropriation agency revenues		
Goods and services	1,419	1,348
Interest	1,528	1,550
Other	2,025	3,625
Total non-appropriation agency revenues	4,972	6,523

Goods and services include cost recoveries under sections 9 and 51 of the *Australian Prudential Regulation Authority Act 1998* for elective services. Revenue from other sources includes recovery of the cost of statistical services and work undertaken in the context of the *New Basel Capital Accord*, which is subject to cost recovery impact statement guidelines (see section 4).

SPECIAL ACCOUNTS

Table 1.6: Estimates of special account flows and balances

		opening balance $'000	receipts $'000	payments $'000	closing balance $'000
	A[1]	**2004-05**	**2004-05**	**2004-05**	**2004-05**
	B[1]	2003-04	2003-04	2003-04	2003-04
SPECIAL ACCOUNTS[2]					
Superannuation Protection Account		**41**	**26,080**	**26,121**	**-**
		-	7,626	7,585	41
Total special accounts		**41**	**26,080**	**26,121**	**-**

1. The opening balance for 2004-05 (reference A) is the same as the closing balance for 2003-04 (reference B).
2. This special account is administered in nature and is governed by section 20 of the *Financial Management and Accountability Act 1997*.

AGENCY EQUITY INJECTIONS AND LOANS

APRA will receive a cash injection of $3.0 million in the 2004-05 Budget to fund activities associated with licensing of superannuation entities. Upon collection of license fees, the majority of which will not occur until 2005-06, a dividend will be returned to government.

Superannuation Protection Account

Under the *Superannuation Industry (Supervision) Act 1993* a special account was established to facilitate the recovery of financial assistance provided to superannuation fund members suffering adverse outcomes resulting from fraud and misappropriation by fund trustees. The account has not been used prior to 2003-04. The first of the Financial Assistance Levies was gazetted on 30 June 2003 and collection commenced in August of that year. Further levies are planned in 2004-05 and outer years.

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

Chairman: Dr John Laker

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: $84.0 million
Agency outcomes appropriation: $77.5 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: $ 7.3 million	Total price: $ 69.7 million	Total price: $ 7.0 million
Appropriation: $ 5.6 million	Appropriation: $ 65.2 million	Appropriation: $ 6.7 million

Output cost attribution

Outputs are priced by costing the time allocated to work carried out on prudential 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.

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 $47.4 million over four years to the Australian Prudential Regulation Authority (APRA) to strengthen its supervisory capacity, principally in supervising large, complex and systemically important financial institutions. It will enable APRA to build up staff levels in front-line supervision and in specialist risk areas and to strengthen its capabilities as Australia's statistical collection agency for the financial sector. This supports the Government's commitment to increase public confidence in the Australian financial system.

The funding will also support other regulatory activities to strengthen the safety of superannuation funds and to assess whether individuals are 'fit and proper' to remain in the general insurance industry in view of the HIH Royal Commission's findings.

Apart from funding for 'fit and proper' assessments, the cost of this measure will be recovered via increases in financial sector levies.

The Government will also provide an equity injection of $3 million in 2004-05, which will be returned to the Budget in the subsequent year. This is to cover a timing difference between expenses and the collection of superannuation trustee licensing fees announced by the Government on 28 October 2002.

The provision of an equity injection is a financial transaction within the general government sector and consequently has no direct impact on the fiscal balance.

OUTCOME 1 — RESOURCING

Table 2.1 shows how the 2004-05 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

	2003-04 estimated actual $'000		2004-05 budget estimate $'000
Agency appropriations			
Output Group 1.1 - Australian Prudential Regulation Authority			
Output 1.1.1 - Policy development	5,026		5,563
Output 1.1.2 - Surveillance programmes	58,942		65,238
Output 1.1.3 - Prudential advice	6,009		6,651
Total revenues from government (appropriations)	69,977	(C1)[1]	77,452
Contributing to price of agency outputs	93%		92%
Revenue from other sources			
Goods and services	1,419		1,348
Inerest	1,528		1,550
Other	2,025		3,625
Total revenue from other sources	4,972		6,523
Total price from agency outputs (Total revenues from government and from other sources)	74,949	(E1)[1]	83,975
Estimated payments from special account balances[2]			
Superannuation Protection Account	7,585		26,121
Total agency special account outflows	7,585		26,121
Total estimated resourcing for Outcome 1 (Total price of outputs appropriations)	74,949		83,975

	2003-04	2004-05
Average staffing level (number)	502	561

1. C1 and E1 show the links back to Table 1.1.
2. Further details on special accounts appear in Table 1.6.

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 in international fora; and 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 Assurance 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's (APRA) 2004-05 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.

The budgeted financial statements contain estimates prepared in accordance with the requirements of the Australian Government's financial budgeting and reporting framework, including the principles of Australian Accounting Standards and Statements of Accounting Concepts, as well as specific guidelines issued by the Department of Finance and Administration.

ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

The Statement of Financial Performance (Table 3.1) shows an increase in appropriations from $70.0 million forecast for the current year to $77.5 million for 2004-05. The increase reflects the escalation in departmental costs forecast for the current year from $73.1 million to $85.7 million for 2004-05. This includes the new policy proposal aimed at strengthening APRA's capability in supervision of regulated entities. It also reflects the additional resources needed to implement licensing of superannuation entities commencing in 2004-05 and continuing in 2005-06. While this activity will be funded by license fees flowing substantially in the second year, much of the preparation and initial activity will occur in 2004-05, requiring a cash injection of $3.0 million in the first year, to be repaid from license fees in 2005-06.

Other revenues in 2004-05 include an unspent appropriation of $1.2 million brought forward from prior years to cover ongoing legal and other activities arising out of the HIH Royal Commission. As a result, other revenue in 2004-05 is marginally higher than the normal trend.

Employee expenses will increase from $46.8 million to $56.6 million in 2004-05. This will support an increase in senior front-line supervisory, specialist technical advisors and additional staff to carry out the intentions of the new budget measure and the licensing of superannuation funds.

Suppliers' costs in 2004-05 have been budgeted to increase by $2.6 million, again reflecting the additional costs associated with the new policy measure, including increases in the facilities to accommodate additional staff.

APRA has budgeted a $1.7 million operating deficit in 2004-05 resulting entirely from the timing differences arising out of the new superannuation licensing regime. As noted above, while much of the preparation and initial costs are reflected in the first year of the initiative (2004-05), the associated revenues will not flow until the second year. This timing difference results in a deficit in the first year and a compensating surplus in the following year (2005-06).

The Departmental Statement of Financial Position (Table 3.2) shows a decrease in financial assets between 2003-04 and 2004-05, brought about by a decrease in cash (to be used for operational needs in 2004-05), offset by a small increase in receivables. Over the past three years, APRA has reduced receivables to a manageable level and will maintain that momentum into the outer years. The marginal increase in receivables in 2004-05 reflects the effects of the superannuation licensing process.

Non-financial assets are expected to increase by $1.5 million in 2004-05, funded entirely by revenue from non-appropriation sources. It will be seen that while infrastructure, plant and equipment will increase marginally in 2004-05 due to additional staffing needs, it will then gradually decline in value over the outer years. Intangibles will increase by $1.1 million as a result of development and implementation of electronic data management systems.

Provisions consist of employee entitlements to annual and long service leave, making-good leased premises and equalising lease incentives.

The retained surpluses in equity reflect the aim of maintaining reserves at sufficient levels (five to ten per cent of levies) to meet unforseen business needs, in terms of supervision of at risk institutions and enforcement actions.

The Departmental Statement of Cash Flows (Table 3.3) reflects the increase in appropriations and other revenue and the once-only cash injection of $3.0 million required for superannuation licensing activities discussed earlier. That cash will be repaid in the following year when the license fees are received from superannuation licensees. A cash pool is also required at the end of June to overcome expected cash flow timing delays arising from the billing of non-superannuation entities during the month of June, to fund employee entitlements and because of the need to leave the initial cash collected in the Official Public Account for 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 2004-05. Except for the cash injection of $3.0 million for superannuation licensing timing delays, the additions are fully funded by APRA's own resources and the bulk of the acquisitions will be for 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.

NOTE OF ADMINISTERED ACTIVITY

Details of transactions administered by the agency on behalf of the Australian Government 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 Australian 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 Australian Government.

Note of budgeted administered cash flows

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

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

	2003-04 estimated actual $'000		2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
REVENUES						
Revenues from ordinary activities						
Revenue from government	69,976	(K1)[(1)]	77,452	83,948	85,009	85,383
Goods and services	1,419		1,348	1,373	1,399	1,426
Interest	1,528		1,550	1,600	1,650	1,700
Other	2,025		3,625	10,025	3,800	2,750
Total revenues from ordinary activities	74,948		83,975	96,946	91,858	91,259
EXPENSES						
Expenses from ordinary activities (excluding borrowing costs expense)						
Employees	46,806		56,641	61,550	60,538	60,443
Suppliers	22,271		24,868	27,074	25,853	25,602
Depreciation and amortisation	3,995		4,186	4,816	5,118	5,014
Total expenses from ordinary activities (excluding borrowing costs expense)	73,072		85,695	93,440	91,509	91,059
Borrowing costs expense	-		-	-	-	-
Operating surplus or (deficit) from ordinary activities	1,876		(1,720)	3,506	349	200

1. K1 shows the link back to Table 1.1.

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
ASSETS					
Financial assets					
Cash	16,164	13,455	14,713	14,447	15,951
Receivables	1,350	2,139	1,735	1,672	1,185
Accrued revenues	2,304	2,704	2,304	2,304	2,304
Total financial assets	19,818	18,298	18,752	18,423	19,440
Non-financial assets					
Infrastructure, plant and equipment	5,487	5,679	4,781	3,967	2,698
Intangibles	4,709	5,830	7,956	8,933	9,713
Other	443	643	444	444	443
Total non-financial assets	10,639	12,152	13,181	13,344	12,854
Total assets	30,457	30,450	31,933	31,767	32,294
LIABILITIES					
Provisions					
Employees	16,228	15,708	16,540	16,607	16,940
Other	1,870	1,698	1,525	1,353	1,181
Total provisions	18,098	17,406	18,065	17,960	18,121
Payables					
Suppliers	723	2,294	3,147	2,702	2,834
Other	2,769	569	-	-	-
Total payables	3,492	2,863	3,147	2,702	2,834
Total liabilities	21,590	20,269	21,212	20,662	20,955
EQUITY					
Parent entity interest					
Contributed equity	5,255	8,255	5,255	5,255	5,255
Reserves	488	522	556	591	625
Retained surpluses or accumulated deficits	3,124	1,404	4,910	5,259	5,459
Total parent entity interest	8,867	10,181	10,721	11,105	11,339
Total equity	8,867	10,181	10,721	11,105	11,339
Current assets	20,261	18,941	19,196	18,867	19,883
Non-current assets	10,196	11,509	12,737	12,900	12,411
Current liabilities	12,446	11,338	12,206	11,967	12,026
Non-current liabilities	9,144	8,932	9,006	8,695	8,929

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
OPERATING ACTIVITIES					
Cash received					
Appropriations	69,976	77,452	83,948	85,009	85,383
Goods and services	1,095	1,150	1,027	1,134	1,209
Interest	1,550	1,550	1,600	1,650	1,700
Other	5,554	2,425	10,025	3,452	2,385
Total cash received	78,175	82,577	96,600	91,245	90,677
Cash used					
Employees	44,142	56,316	61,235	60,227	60,141
Suppliers	21,802	26,495	26,182	25,759	24,457
Total cash used	65,944	82,811	87,417	85,986	84,598
Net cash from or (used by) operating activities	12,231	(234)	9,183	5,259	6,079
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					
Purchase of property, plant and equipment	4,807	5,500	4,950	5,550	4,600
Total cash used	4,807	5,500	4,950	5,550	4,600
Net cash from or (used by) investing activities	(4,782)	(5,475)	(4,925)	(5,525)	(4,575)
FINANCING ACTIVITIES					
Cash received					
Appropriations - contributed equity	-	3,000	-	-	-
Total cash received	-	3,000	-	-	-
Cash used					
Dividends paid	2,100	-	3,000	-	-
Total cash used	2,100	-	3,000	-	-
Net cash from of (used by) financing activities	(2,100)	3,000	(3,000)	-	-
Net increase/(decrease) in cash held	5,349	(2,709)	1,258	(266)	1,504
Cash at the beginning of the reporting period	10,815	16,164	13,455	14,713	14,447
Cash at the end of the reporting period	16,164	13,455	14,713	14,447	15,951

Table 3.4: Agency Capital Budget Statement

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
CAPITAL APPROPRIATIONS					
Total loans	-	(K3)[1] 3,000	-	-	-
Total	-	3,000	-	-	-
Represented by					
Other	-	3,000	-	-	-
Total	-	3,000	-	-	-
PURCHASE OF NON-CURRENT ASSETS					
Funded by capital appropriations	-	-	-	-	-
Funded internally by agency resources	-	5,500	4,950	5,550	4,600
Total	-	5,500	4,950	5,550	4,600

1. K3 shows the link back to Table 1.1.

Table 3.5: Agency Non-financial Assets — Summary of Movement (Budget year 2004-05)

	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	-	-	-	5,487	-	-	4,709	10,196
Additions	-	-	-	2,000	-	-	3,500	5,500
Disposals	-	-	-	-	-	-	-	-
Net revaluation increments/decrements	-	-	-	-	-	-	-	-
Recoverable amount write-downs	-	-	-	-	-	-	-	-
Depreciation/amortisation expense	-	-	-	(1,808)	-	-	(2,379)	(4,187)
Other movements	-	-	-	-	-	-	-	-
Carrying amount at the end of year	-	-	-	5,679	-	-	5,830	11,509
Represented by								
Self funded	-	-	-	2,000	-	-	3,500	5,500
Appropriations	-	-	-	-	-	-	-	-
Total represented by	-	-	-	2,000	-	-	3,500	5,500

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
REVENUES					
Non-taxation					
Other	85,433	96,903	103,399	104,460	104,834
Total non-taxation	85,433	96,903	103,399	104,460	104,834
Total revenues administered on behalf of Government	85,433	96,903	103,399	104,460	104,834
EXPENSES					
Write down and impairment of assets	500	500	500	500	500
Total expenses administered on behalf of Government	500	500	500	500	500

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
ASSETS					
Financial assets					
Receivables	200	150	150	150	150
Total financial assets	200	150	150	150	150
Total assets administered on behalf of Government	200	150	150	150	150
Current assets	200	150	150	150	150
Non-current assets	-	-	-	-	-

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

	2003-04 estimated actual $'000	2004-05 budget estimate $'000	2005-06 forward estimate $'000	2006-07 forward estimate $'000	2007-08 forward estimate $'000
OPERATING ACTIVITIES					
Cash received					
Other	85,283	96,753	103,249	104,310	104,684
Total cash received	85,283	96,753	103,249	104,310	104,684
Cash used					
Cash to Official Public Account	85,283	96,753	103,249	104,310	104,684
Total cash used	85,283	96,753	103,249	104,310	104,684
Net cash from or (used by) 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 Australian Government'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 Australian 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

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 other non-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* is transferred to the Official Public Account at the close of business each day.

Section 4: Purchaser/provider and cost recovery arrangements

PURCHASER/PROVIDER ARRANGEMENTS

The Australian Prudential Regulation Authority is not party to any cross agency purchaser/provider arrangements.

COST RECOVERY ARRANGEMENTS

Cost recovery arrangements have been negotiated with the large Authorised Deposit-Taking Institutions for services in relation to the implementation of the *New Basel Capital Accord*, in accordance with government cost recovery guidelines. While the final amounts have yet to be determined, the budgeted impact of this arrangement in 2004-05 is expected to result in revenue flows of the order of $1.9 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 $0.5 million for these services.

Cost recovery arrangements will be put in place for licensing of superannuation funds commencing in the year ending June 2005.

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