

# AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

## Section 1: Overview, Appropriations and Budget Measures Summary

### OVERVIEW

The role of the Australian Prudential Regulation Authority (APRA) is regulation that promotes prudent behaviour by banks, insurance companies, superannuation funds and other financial institutions with the key aim of protecting the interests of their depositors, policy holders and fund 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 programs 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

Total appropriations for APRA in the 1999-2000 Budget are \$54.1 million (see Table 1.1.)



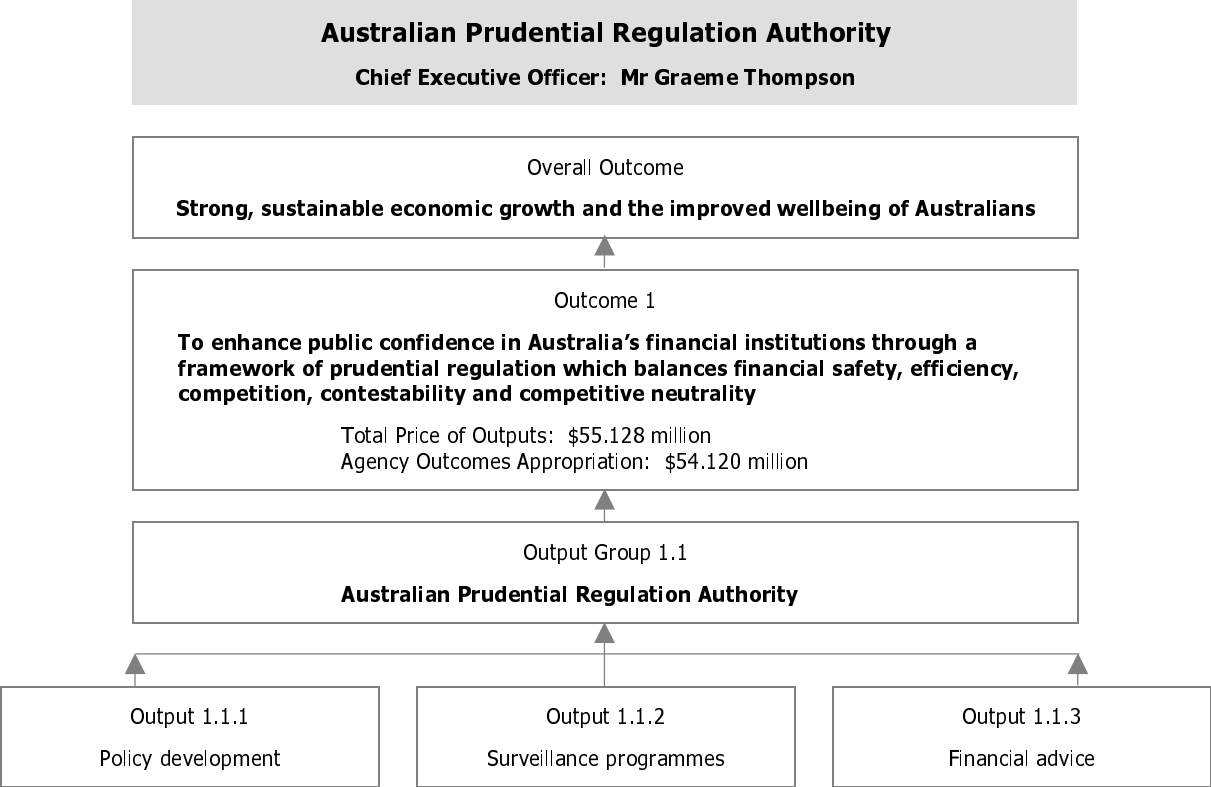
## **ADMINISTERED CAPITAL AND EQUITY INJECTIONS AND LOANS**

APRA has not been appropriated any administered capital for 1999-2000.

## Section 2: Outcomes and Outputs Information

### **OUTCOMES AND OUTPUT GROUPS**

The map on the following page shows the relationship between Government outcomes and the contributing outputs for the Australian Prudential Regulation Authority. Financial detail for Outcome 1 by output appears in Table 2.2 while non-financial information for Outcome 1 appears in Table 2.3.



## OUTCOME 1

Enhancement of public confidence in Australia’s financial institutions through a framework of prudential regulation which balances financial safety and efficiency, contestability and competitive neutrality.

Table 2.1 shows the relationship between the programme structure for 1998-99 and the new outcome structure for the 1999-2000 Budget for Outcome 1.

**Table 2.1: Relationship between Programme and Outcome Structure for Outcome 1**

Programme Management Budgeting	Accrual Budgeting
<p><b>Programme 7 — Australian Prudential Regulation Authority</b></p> <p><b>Sub-programmes</b> No sub-programmes</p> <p><b>Appropriations for Programme 7</b></p> <p>Appropriation Bill 1 Running costs, including Section 31 receipts (677-1) Compensation and legal expenses (67-2-01)</p>	<p><b>Outcome 1</b> 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</p> <p><b>Output Groups</b> <b>Output Group 1.1 — Australian Prudential Regulation Authority</b> <b>Appropriations for Outcome 1</b></p> <p><b>Output Group 1.1</b></p> <p><b>Outcome 1</b> Appropriation Bill 1 Agency Outputs</p>

## RESOURCES FOR OUTCOME 1

Table 2.2 shows how the 1998-99 appropriation and programming structure relates to total resourcing for planned Outcome 1.

**Table 2.2: Total Resources for Outcome 1**

	Estimated Actual	Estimated Actual	Budget
	1998-99 CASH \$'000	1998-99 ACCRUAL \$'000	1999-00 \$'000
<b>Price of Agency Outputs</b>			
<b>Output Group 1.1</b> — Australian Prudential Regulation Authority			
Output 1.1.1 — Policy Development	3,200	3,100	3,100
Output 1.1.2 — Surveillance Programmes	53,166	42,017	52,733
Output 1.1.3 — Financial Advice	780	708	705
<b>Appropriation Structure 1998-99 (a)</b>			
Program 7 — Australian Prudential Regulation Authority			
<b>Subtotal Output Group 1.1</b>	57,146	45,825	56,538
<b>Revenue from Government (Appropriation) for Agency Outputs</b>	61,583	45,425	54,120
<b>Revenue from Other Sources</b>	-	3,163	1,008
<b>Total Price of Outputs</b>	57,146	45,825	56,538
<b>Total for Outcome 1</b>	57,146	45,825	56,538
		<b>1998-99</b>	<b>1999-00</b>
<b>Staff Years (Number)</b>		378	446

(a) See Table 2.1 for details.

**CONTRIBUTION OF OUTPUTS TO OUTCOME 1**

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 programs 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 2.3: Performance Information 1999-2000**

### Performance Information for Agency Outputs

#### Output Group 1.1 — Australian Prudential Regulatory Authority

Output 1.1.1 — Policy Development	<p>Issuance of prudential standards, guidelines and like instruments which effectively address risk management exposures of regulated industries;</p> <p>Comprehensive consultation with industry bodies, regulated institutions and professional associations on the development and implementation of prudential policy;</p> <p>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</p> <p>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.</p>
Output 1.1.2 — Surveillance Programmes	<p>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;</p> <p>The identification of emerging prudential risks within regulated institutions through programs of inspection and off-site surveillance and the supervision of remedial actions to effectively manage such risks; and</p> <p>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).</p>

**Table 2.3: Performance Information 1999-2000 (continued)**

**Performance Information for Agency Outputs**

**Output Group 1.1 — Australian Prudential Regulatory Authority**

Output Group 1.1.3 — Financial Advice	<p>Regular liaison meetings with the Department of the Treasury and, as requested, with relevant Ministers and Parliamentary Committees;</p> <p>Recommendations to Government on prudential regulation policy development involving legislative implementation (including amendments to all Acts of Parliament administered by APRA and regulations thereunder);</p> <p>Timely briefings to Government on major items of policy interest emerging from APRA participation in international forum; and</p> <p>Maintenance of a memorandum of understanding with the Department of the Treasury.</p>
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**Evaluations**

The results of evaluations will be reported in APRA's Annual Report.

## **Section 3: Budget Financial Statements**

The budget financial statements will form the basis of the financial statements that will appear in the Australian Prudential Regulation Authority's 1999-2000 Annual Report, and form the basis for the input into the Whole of Government Accounts.

### **Budget Statement of Revenues and Expenses (Budget Operating Statement)**

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

### **Budget Statement of Assets and Liabilities (Budget Balance Sheet)**

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

### **Budget Cash Flow Statement**

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

### **Capital Budget**

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

### **Non-financial Assets — Summary of Movement**

This statement shows the movement in APRA's non-financial assets over the Budget year 1999-2000.

**Table 3.1: Budget Statement of Revenue and Expenses**

	Estimated		Estimated		
	Actual				
	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Agency Revenue and Expenses</b>					
<b>Revenue</b>					
Revenue from government					
Ordinary annual appropriations (net appropriations)	-	1,500	-	-	-
Other services	45,425	52,620	53,536	52,037	46,597
Revenue from other sources					
Sales of goods and services	1,100	500	300	300	300
Other revenue from other sources	2,063	508	370	342	372
<b>Total Revenue</b>	<b>48,588</b>	<b>55,128</b>	<b>54,206</b>	<b>52,679</b>	<b>47,269</b>
<b>Expenses</b>					
Employees	29,594	35,388	35,650	34,933	33,725
Depreciation and amortisation	4,842	6,629	7,106	6,706	3,009
Other costs of providing goods and services	11,390	14,521	10,780	10,398	9,863
<b>Total Expenses</b>	<b>45,825</b>	<b>56,538</b>	<b>53,536</b>	<b>52,037</b>	<b>46,597</b>
<b>Operating Result before Capital User Charge</b>	<b>2,763</b>	<b>-1,410</b>	<b>670</b>	<b>642</b>	<b>672</b>
<b>Capital User Charge</b>	-	-	-	-	-
<b>Transfers and Dividends</b>	-	-	-	-	-
<b>Accumulated Results at Year End</b>	<b>2,763</b>	<b>-1,410</b>	<b>670</b>	<b>642</b>	<b>672</b>

Note: APRA does not have any Administered items.

**Table 3.2: Budget Statement of Assets and Liabilities**

	Estimated Actual		Estimated		
	1998-99 \$'000	1999-00 \$'000	2000-01 \$'000	2001-02 \$'000	2002-03 \$'000
<b>Agency Assets and Liabilities</b>					
<b>Debt</b>					
Leases	-	-	-	-	-
Other	12,319	10,879	5,440	-	-
<b>Total Debt</b>	12,319	10,879	5,440	-	-
<b>Provisions and Payables</b>					
Employees	6,991	8,500	7,700	7,400	7,000
Other	3,610	3,200	1,800	1,800	1,800
<b>Total Provisions and Payables</b>	10,601	11,700	9,500	9,200	8,800
<b>Equity</b>					
Accumulated results	7,903	6,458	7,093	7,700	8,337
<b>Total Equity</b>	7,903	6,458	7,093	7,700	8,337
<b>Total Liabilities and Equity</b>	30,929	29,337	22,333	17,200	17,437
<b>Financial Assets</b>					
Cash	10,167	9,855	8,627	8,436	10,114
Receivables	1,659	700	300	300	300
<b>Total Financial Assets</b>	11,825	10,555	8,927	8,736	10,414
<b>Non-financial Assets</b>					
Infrastructure, plant and equipment	7,445	8,119	6,956	6,218	5,708
Intangibles	10,757	9,763	5,550	1,296	416
Other	902	900	900	900	900
<b>Total Non-financial Assets</b>	19,103	18,782	13,406	8,415	7,024
<b>Total Assets</b>	30,929	29,337	22,333	17,200	17,437

Note: APRA does not have any Administered items.

**Table 3.3: Budget Cash Flow Statement**

	Estimated Actual		Estimated		
	1998-99 \$'000	1999-00 \$'000	2000-01 \$'000	2001-02 \$'000	2002-03 \$'000
<b>Agency Cash Flows</b>					
<b>Operating Activities</b>					
<b>Cash Received</b>					
Appropriations	45,439	54,120	53,536	52,037	46,597
Sales of goods and services	1,100	500	300	300	300
Other	4,116	1,398	370	342	372
<b>Total Cash Received</b>	<b>50,655</b>	<b>56,018</b>	<b>54,206</b>	<b>52,679</b>	<b>47,269</b>
<b>Cash Used</b>					
Employees	29,594	35,010	34,900	34,051	32,943
Suppliers	11,390	14,066	13,360	11,610	11,080
<b>Total Cash Used</b>	<b>40,984</b>	<b>49,076</b>	<b>48,260</b>	<b>45,661</b>	<b>44,023</b>
<b>Net Cash from Operating Activities</b>	<b>9,671</b>	<b>6,942</b>	<b>5,946</b>	<b>7,018</b>	<b>3,246</b>
<b>Investing Activities</b>					
<b>Cash Received</b>					
Appropriations	16,144	4,000	-	-	-
Proceeds from the sale of property, plant and equipment	18	-	-	-	-
<b>Total Cash Received</b>	<b>16,162</b>	<b>4,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash Used</b>					
Purchase of property, plant and equipment	16,227	5,810	1,730	1,715	1,618
Other	-	5,444	5,444	5,444	-
<b>Total Cash Used</b>	<b>16,227</b>	<b>11,254</b>	<b>7,174</b>	<b>7,159</b>	<b>1,618</b>
<b>Net Cash from Investing Activities</b>	<b>-65</b>	<b>-7,254</b>	<b>-7,174</b>	<b>-7,159</b>	<b>-1,618</b>
<b>Financing Activities</b>					
<b>Cash Received</b>					
Other	594	-	-	-	-
<b>Total Cash Received</b>	<b>594</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash Used</b>					
<b>Total Cash Used</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Cash from Financing Activities</b>	<b>594</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net increase/decrease in cash held	10,167	-312	-1,228	-141	1,628
Add cash as at 1 July	-	10,167	9,855	8,627	8,486
Cash as at 30 June	10,167	9,855	8,627	8,486	10,114

Note: APRA does not have any Administered items.

## CAPITAL BUDGET

**Table 3.4: Capital Budget**

Purchase of Non-current Assets	Estimated			
	1999-00 \$'000	2000-01 \$'000	2001-02 \$'000	2002-03 \$'000
Funded by capital appropriations	-	-	-	-
Funded internally by Agency resources	5,810	1,730	1,715	1,618
<b>Total</b>	5,810	1,730	1,715	1,618

**Table 3.5: Non-financial Assets — Summary of Movement**  
**Budget Year 1999-2000**

	Land	Buildings	Total Land and Buildings	Other Infrastructure, Plant and Equipment	Total Infrastructure, Plant and Equipment	Intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross Value</b>							
As at 1 July 1999 (opening)	-	-	-	9,449	9,449	14,094	23,543
Additions	-	-	-	2,430	2,430	3,380	5,810
As at 30 June 2000	-	-	-	11,879	11,879	17,474	29,353
<b>Accumulated Depreciation</b>							
As at 1 July 1999 (opening)	-	-	-	1,504	1,504	3,337	4,841
Charge for the reporting period	-	-	-	2,256	2,256	4,373	6,629
As at 30 June 2000	-	-	-	3,760	3,760	7,711	11,471
<b>Net Book Value as at 30 June 2000 (Closing Book Value)</b>	-	-	-	8,119	8,119	9,763	17,882
<b>Net Book Value as at 1 July 1999 (Opening Book Value)</b>	-	-	-	7,445	7,445	10,757	18,202
<b>Total Additions</b>							
	Land	Buildings	Total Land and Buildings	Other Infrastructure, Plant and Equipment	Total Infrastructure, Plant and Equipment	Intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Self funded	-	-	-	2,430	2,430	3,380	5,810
Appropriations	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	2,430	2,430	3,380	5,810

## NOTES TO THE FINANCIAL STATEMENTS

### Budget Statement of Revenue and Expenses

Other services are the appropriation required to run the excluded superannuation fund on behalf of the ATO. The ATO will supervise excluded superannuation funds from 1 July 1999, but administrative arrangements during a transition period will require APRA to provide administrative support.

It is assumed that the Australian Government Actuary will transfer to the Treasury in 1999-2000 and discussions are currently under way to finalise the transfer. Sales from other goods and services drop in the budgeted year on the assumption that the transfer will take effect from 1 July 1999.

Depreciation and amortisation includes the amortisation of capitalised establishment expenses over the life of the loans.

The budget loss arises from the reduction in levies to industry. This was in response to the over collection of levies in prior year due to the increase in the asset values ahead of the prior forecast and under spends in supervision costs in 1998-99.

There is no capital charge on APRA, which is funded mainly by industry levies.

### Budget Statement of Assets and Liabilities

The debt represents the appropriation of \$16.1m in 1998-99 and \$4m in to be appropriated in 1999-00 less the repayments made. This funding was provided to support the establishment of APRA.

Accruals and provisions represent liabilities for employee benefits including leave and miscellaneous accruals.

Equity reflects accumulated results for 1998-99 and 1999-2000 in addition to the opening balance of \$5.7 million being the net value of assets and liabilities transferred from the Reserve Bank and the Insurance and Superannuation Commission on the formation of APRA on 1 July 1998.

Financial assets include cash that may be held in government-backed securities and receivables for miscellaneous income derived by the agency.

Non-financial assets include assets held as leasehold improvements, furniture and fittings, computer hardware and office equipment; and intangibles include capitalised software and the establishment costs associated with setting up APRA. The treatment of establishment costs as a capitalised item in the balance sheet are subject to GAAP interpretation and acceptance by the ANAO at year end.

## **Budget Cash Flow Statement**

Cash received from operating activities reflects: the appropriation received based on the levies collected from industry less amounts collected on behalf of the ATO and ASIC less loan repayments; cash from fees and charges; and interest payments from cash held as government backed investments. Cash received from operating activities has been netted from cash expended on employees and administration.

Cash received from investing activities includes the loans received to support the establishment of APRA.

Cash used includes cash spent on building infrastructure and cash used to pay off the loan.

**Non-Appropriation Agency and Administered Revenue**

	Estimated Revenue	Estimated Revenue
	1998-99	1999-00
	\$	\$
Agency other income	3,163,000	1,008,000
<b>Total Estimated Revenue</b>	<b>3,163,000</b>	<b>1,008,000</b>

Note: Agency other income is derived from fees, charges and interest earned on investments. The income drops from 1998-99 due to transfer of Australian Government Actuary from APRA and the drop in the cash balance on which the interest is earned.

## Appendix 2

**Estimates of Expenses from Special Appropriations**

	Estimated Expense	Estimated Expense
	1998-99	1999-00
	\$	\$
Levies	-	52,620,000
Prepayment of establishment and levies	61,583,000	-
Prepayment of establishment for FI scheme	-	4,000,000
<b>Total Estimated Expense</b>	<b>61,583,000</b>	<b>56,620,000</b>

Note: The estimates of expenses for levies is the cost of supervision incurred by APRA in carrying out this activity. The prepayment of establishment for the FI scheme is a loan to be repaid over three years for the expenses incurred in integrating the State based scheme. The loan will be recovered through levies on industry.