

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

The total appropriation for APRA in the 2000-01 Budget is \$49.0 million (see Table 1.1 on the following page).

Part C: Agency Budget Statements — APRA

Australian Prudential Regulation Authority — Appropriations 2000-01

Table 1.1: Appropriations (\$'000)

Outcomes	Agency (Price of Outputs)					Administered				Total Appropriations	
	Revenue from Government (Appropriations)			Revenue from other sources ^(a)	Price of Outputs	Annual Appropriations		Special Approps	Total Administered Appropriations		
	Bill No. 1	Special Approps	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)		
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	-	48,999	48,999	1,327	50,326	-	-	-	-	48,999	
Total	-	48,999	48,999	1,327	50,326	-	-	-	-	48,999	
										Agency Capital (Equity Injections and Loans)	-
										Administered Capital	-
										Total Appropriations	48,999

(a) Revenue from Other Sources includes other revenue from government (for example, resources free of charge) and revenue from sources other than Government (for example, sales of goods and services).

ADMINISTERED CAPITAL AND AGENCY CAPITAL (EQUITY INJECTIONS AND LOANS)

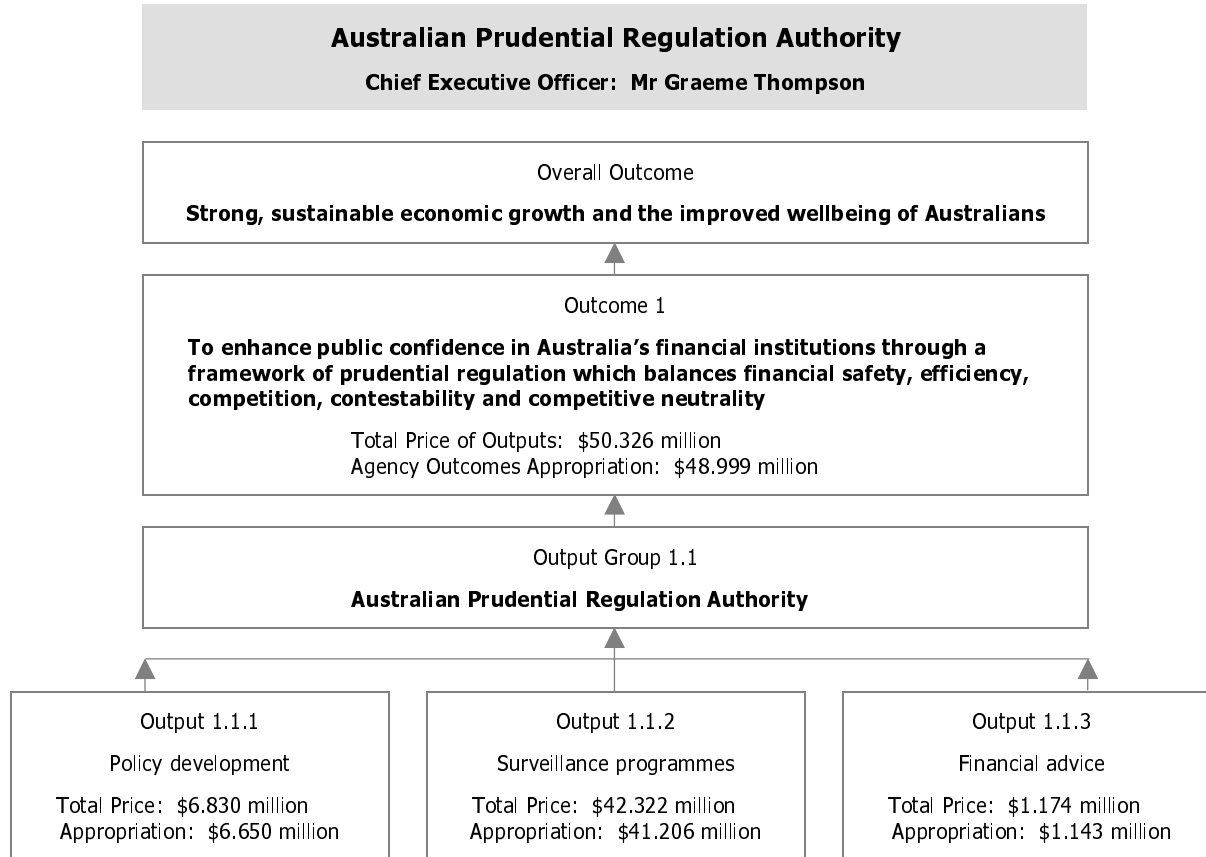
APRA has not been appropriated any administered capital, equity injections or loans for 2000-01.

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 (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.

Part C: Agency Budget Statements — APRA



CHANGES TO OUTCOMES AND OUTPUTS

There have been no changes to APRA's outcomes and outputs during 1999-2000.

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

MEASURES IN THE 2000-01 BUDGET

There are no measures for APRA in the 2000-01 Budget.

OUTCOME 1 — RESOURCING

Table 2.1 shows how the 2000-01 appropriations translate to total resourcing for Outcome 1, including Revenue from Government (appropriations), revenue from other sources and the total price of outputs. This table links back to Table 1.1, the Appropriations Table.

Table 2.1: Total Resources for Outcome 1

	Estimated Actual 1999-00 (\$'000)	Budget Estimate 2000-01 (\$'000)
Agency appropriations		
Output group 1.1		
Output 1.1.1 — Policy development	8,091	6,650
Output 1.1.2 — Surveillance programmes	50,137	41,206
Output 1.1.3 — Financial advice	1,391	1,143
Subtotal output group 1.1	59,619	48,999
Total revenue from Government (appropriations)	59,619	48,999
contributing to price of agency outputs	93.6%	97.4%
Revenue from other sources		
Miscellaneous fees and charges	2,075	500
Interest revenue	2,000	827
Total revenue from other sources	4,075	1,327
Total price of agency outputs <i>(Total revenue from Government and from other sources)</i>	63,694	50,326
Total estimated resourcing for outcome 1 <i>(Total price of outputs and admin expenses)</i>	63,694	50,326
	1999-00	2000-01
Average staffing levels (number)	397	406

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 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 2.2: Performance Information 2000-01

Performance information for agency outputs

Output Group 1.1 — Australian Prudential Regulation 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 2.2: Performance Information 2000-01 (continued)**Performance information for agency outputs****Output Group 1.1** — Australian Prudential Regulation Authority

Output Group 1.1.3 — Financial advice

Regular liaison meetings with the Department of the Treasury and, as requested, 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 forum; 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 programs is evaluated through industry consultation on a periodic basis.

Competitive Tendering and Contracting

As a new organisation, APRA has been through a number of market testing exercises, which were implemented as considered appropriate. APRA will continue to implement programs that reflect the principles of competitive tendering and contracting.

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 2000-01 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 financial statements are prepared consistent with GST accounting requirements, as outlined by the Urgent Issues Group (UIG) of the Australian Accounting Research Foundation. 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 are reported gross. Appropriations are thus net of recoverable GST amounts.

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 Statement

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.

**Table 3.1: Agency Budget Statement of Revenues and Expenses
(for the period ended 30 June)**

	Estimated Actual 1999-00 \$'000	Budget Estimate 2000-01 \$'000	Forward Estimate 2001-02 \$'000	Forward Estimate 2002-03 \$'000	Forward Estimate 2003-04 \$'000
Operating revenue					
Revenues from Government	59,619	48,999	50,047	46,597	47,732
Sales of goods and services	1,803	500	600	600	600
Interest	2,000	827	503	456	620
Other	272	-	-	-	-
Total operating revenues	63,694	50,326	51,150	47,653	48,952
Operating expenses					
Employees	34,278	33,952	34,016	33,504	33,505
Suppliers	15,360	13,642	12,308	11,135	11,136
Depreciation and amortisation	3,189	3,538	3,950	4,325	3,949
Total operating expenses	52,827	51,132	50,274	48,964	48,590
Operating surplus or deficit before abnormal and extraordinary items	10,867	-806	876	-1,311	362
Abnormal and extraordinary items	6,313	-	-	-	-
Operating surplus or deficit after abnormal and extraordinary items	4,554	-806	876	-1,311	362
Capital use charge paid	-	-	-	-	-
Operating surplus or deficit after abnormal and extraordinary items and CUC	4,554	-806	876	-1,311	362

**Table 3.2: Agency Budget Statement of Assets and Liabilities
(as at 30 June)**

	Estimated Actual 1999-00 \$'000	Budget Estimate 2000-01 \$'000	Forward Estimate 2001-02 \$'000	Forward Estimate 2002-03 \$'000	Forward Estimate 2003-04 \$'000
Assets					
Financial assets					
Cash	22,673	7,328	754	3,181	5,192
Receivables	700	300	300	300	300
Accrued revenues	-	1,043	1,272	137	-
Total financial assets	23,373	8,671	2,326	3,618	5,492
Non-financial assets					
Land and buildings	-	-	-	-	-
Infrastructure, plant and equipment	7,191	6,995	6,635	5,941	5,383
Intangibles	1,749	5,604	6,321	4,438	2,795
Other	900	900	900	901	900
Total non-financial assets	9,840	13,499	13,856	11,280	9,078
Total assets	33,213	22,170	16,182	14,898	14,570
Liabilities					
Debt					
Loans	10,879	5,440	-	-	-
Leases	2,957	2,360	1,860	1,360	860
Other	2,954	1,087	-	360	-
Total debt	16,790	8,887	1,860	1,720	860
Provisions and payables					
Employees	9,993	8,160	8,323	8,490	8,660
Suppliers	1,000	500	500	500	500
Total provisions and payables	10,993	8,660	8,823	8,990	9,160
Total liabilities	27,783	17,547	10,683	10,710	10,020
Equity					
Capital	5,255	5,255	5,255	5,255	5,255
Reserves	-	-	-	-	-
Accumulated surplus or deficit	175	-632	244	-1,067	-705
Total equity	5,430	4,623	5,499	4,188	4,550
Current liabilities	10,612	7,013	5,931	6,297	5,947
Non-current liabilities	17,171	10,534	4,752	4,413	4,073
Current assets	24,273	9,571	3,226	4,519	6,392
Non-current assets	8,940	12,599	12,956	10,379	8,178

**Table 3.3: Agency Budget Cash Flow Statement
(for the period ended 30 June)**

	Estimated Actual 1999-00 \$'000	Budget Estimate 2000-01 \$'000	Forward Estimate 2001-02 \$'000	Forward Estimate 2002-03 \$'000	Forward Estimate 2003-04 \$'000
Operating activities					
Cash received					
Appropriations for outputs	62,573	46,089	48,731	48,092	47,509
Sales of goods and services	1,590	900	600	600	600
Interest	2,000	827	503	457	620
Total cash received	66,163	47,816	49,834	49,149	48,729
Cash used					
Employees	44,929	35,785	33,853	33,339	33,336
Suppliers	18,579	14,739	12,808	11,635	11,634
Total cash used	63,508	50,524	46,661	44,974	44,970
Net cash from operating activities	2,655	-2,708	3,173	4,175	3,759
Investing activities					
Cash received	-	-	-	-	-
Total cash received	-	-	-	-	-
Cash used					
Purchase of property, plant and equipment	3,184	7,198	4,307	1,748	1,748
Total cash used	3,184	7,198	4,307	1,748	1,748
Net cash from investing activities	-3,184	-7,198	-4,307	-1,748	-1,748
Financing activities					
Cash received					
Proceeds from debt	3,998	-	-	-	-
Total cash received	3,998	-	-	-	-
Cash used					
Repayments of debt	5,438	5,439	5,440	-	-
Total cash used	5,438	5,439	5,440	-	-
Net cash from financing activities	-1,440	-5,439	-5,440	-	-
Net increase in cash held	-1,969	-15,345	-6,574	2,427	2,011
Cash at the beginning of the reporting period	24,642	22,673	7,328	754	3,181
Cash at the end of the reporting period	22,673	7,328	754	3,181	5,192

**Table 3.4: Agency Capital Budget Statement
(for the period ended 30 June)**

	Estimated Actual 1999-00 \$'000	Budget Estimate 2000-01 \$'000	Forward Estimate 2001-02 \$'000	Forward Estimate 2002-03 \$'000	Forward Estimate 2003-04 \$'000
Purchase of non-current assets					
Funded by capital appropriations	-	-	-	-	-
Funded internally by agency resources	2,946	7,248	8,740	3,560	1,798

Table 3.5: Agency Non-financial Assets — Summary of Movement

	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
Gross value							
<i>As at 1 July 2000 (opening)</i>	-	-	-	10,288	10,288	3,076	13,364
Additions	-	-	-	2,065	2,065	5,183	7,248
Disposals	-	-	-	50	50	-	50
Other movements	-	-	-	-	-	-	-
<i>As at 30 June 2001 (closing)</i>	-	-	-	12,303	12,303	8,259	20,562
Accumulated depreciation							
<i>As at 1 July 2000 (opening)</i>	-	-	-	3,098	3,098	1,327	4,425
Disposals	-	-	-	-	-	-	-
Charge for the reporting period	-	-	-	2,210	2,210	1,328	3,538
Other movements	-	-	-	-	-	-	-
<i>As at 30 June 2001 (closing)</i>	-	-	-	5,308	5,308	2,655	7,963
Net book value as at 30 June 2001 (Closing book value)	-	-	-	6,995	6,995	5,604	12,599
Net book value as at 1 July 2000 (Opening book value)	-	-	-	7,191	7,191	1,749	8,940
Total additions							
Self funded	-	-	-	2,065	2,065	5,183	7,248
Appropriations	-	-	-	-	-	-	-
Total	-	-	-	2,065	2,065	5,183	7,248

NOTES TO THE FINANCIAL STATEMENTS

Budget Statement of Revenues and Expenses (Budgeted Operating Statement)

Ordinary Annual Appropriation

The ordinary annual appropriation in 1999-2000 is the appropriation provided to oversight Self-Managed Superannuation Funds (SMSF's) on behalf of the Australian Taxation Office (ATO). The ATO was responsible for the supervision of SMSF's from 1 July 1999, but administrative arrangements during the transition period required APRA to provide support until 30 June 2000.

Special Appropriation

The special appropriation relates to the levies, late lodgement and late payment penalties collected by APRA across all industries except SMSF's. The revenue reported by APRA is net of the levies retained in the Official Public Account to be directed to the Australian Securities and Investments Commission (ASIC) (\$11.6 million) for consumer protection and market integrity functions, and to the ATO (\$2.4 million) for unclaimed moneys and lost members functions. The revenue recognised in 1999-2000 is less than the estimated cash to be transferred to APRA by \$2.9 million. This amount has been carried forward as revenue in advance and deducted from estimated cash requirements in the calculation of 2000-01 levies.

Sales of Goods and Services

Estimated sales from other goods and services drop in future years because of the transfer of the Australian Government Actuary (AGA) to the Treasury on 1 April 2000.

Abnormal Item

The abnormal item is restructuring expenses directly attributable to the restructuring of APRA and include expenditure on separation and redundancy, surplus lease space, employee entitlements and relocation.

Capital Use Charge

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

Budget Statement of Assets and Liabilities

Financial Assets

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

Non-financial Assets

Non-financial assets include assets held as 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 includes prepayments.

Debt

The loan represents the prepayment of levies of \$16.1 million appropriated in 1998-1999 and \$4 million appropriated in 1999-2000 less the repayments made. This funding was provided to support the establishment of APRA.

Other debt is levy revenue received in advance.

Provisions and Payables

Provisions and payables represent liabilities for employee benefits including leave and miscellaneous accruals.

Equity

Equity reflects accumulated results for 1998-99 and 1999-2000 in addition to the opening balance of \$5.3 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.

Budget Cash Flow Statement

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

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

Cash received from financing activities includes the prepayment of levies received to support the establishment of APRA.

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

Appendix 1

Non-appropriation Agency and Administered Revenue

	Estimated Revenue 1999-00 \$'000	Estimated Revenue 2000-01 \$'000
Agency other income	4,075	1,327
Total estimated revenue	4,075	1,327

Agency other income is derived from fees and charges, including those of the AGA, and interest earned on investments. The income drops from 2000-01 due to the transfer of the AGA on 1 April 2000.

Appendix 2

Estimates of Expenses from Special Appropriations

	Estimated Expense 1999-00 \$'000	Estimated Expense 2000-01 \$'000
<i>Australian Prudential Regulation Authority Act 1998</i>	59,619	48,999
Total estimated expenses	59,619	48,999