Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 29, 30 & 31 May 2007

Question: bet 9 (ABS)

Topic: **Assets & Liabilities – Current Solvency Ratio**

Hansard Page: **Written**

Senator EVANS asked:

According to the 2007-08 PBS the agency has current assets of $20.5 million and current liabilities of about $45.1 million in 2006-07.

How does the ABS ‘prudently’ sustain a current solvency ratio of less than 100%?

Answer:

A liquidity ratio of 1:1 is accepted as a minimum standard for non-government entities to ensure that they have the capacity to meet cash payments as and when they fall due. Non-government agencies do not have the same level of surety or control over revenue sources as government agencies and the minimum private sector liquidity ratio is not relevant for government agencies.

Flexibility exists for government agencies in the timing of the receipt of appropriations, and as such, liquidity ratios well below the 1:1 ratio are sustainable over the long term. The ABS has not had a liquidity ratio of 1:1 or greater since the introduction of the accrual framework, and does not need current asset levels to be in line with current liabilities to ensure that it has the capacity to meet payments as and when they fall due.

The majority of ABS’ current liabilities relate to employee provisions. Employee provisions do not fall due at any one point in time and are generally taken in line with the rate they are earned.