

Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
ADDITIONAL ESTIMATES 2013-2014

Finance Portfolio

Department/Agency: Department of Finance
Outcome/Program: 1/1.1
Topic: Operating Losses / Agency financial health

Senator: Wong

Question reference number: F173

Type of question: Written

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Number of pages: 4

Question:

- a) In relation to the measure in the Finance portfolio entitled “Funding for pre-existing measures affecting the public sector” on page 147 of the MYEFO, who in Finance is conducting the work on assessing an agency’s need for funding? Is there a dedicated group working on this?
- b) Can you provide an update on how this work is going? Can you describe the nature of the work that is being undertaken?
- c) Have the guidelines that were to be issued between yourselves and the Australian Public Service Commission been released? If not, why not?
- d) What does it mean for an agency to incur an operating loss?
- e) For what reasons can an agency incur an operating loss? How many of these reasons are “technical” reasons – that is, due to accounting or other factors unrelated to whether they are actually adequately funded for their functions?
- f) In relation to the answer you provided to F9 from the November 2013 estimates, how many of the 34 agencies that incurred an operating loss in 2012-13 incurred a loss due to these “technical” reasons?
- g) Further to this point, can you describe to the committee what the depreciation and amortisation expense is?
- h) How do departments and agencies get funded for this?
- i) Does the depreciation and amortisation expense get counted for the purposes of determining a department’s or agency’s budget bottom line?
- j) Does it get counted for the purpose of an operating loss?
- k) There was a report in the Australian Financial Review titled “ABS battles ‘to keep lights on’” on 29 January 2014. Would this be the type of situation where Finance would be looking at the agency’s financial health?
- l) Can you describe to the committee the work that is being done with the ABS on this?
- m) Further to this, there was a report in the Canberra Times titled “Cash-strapped Australian Competition and Consumer Commission to axe jobs” on 6 February 2014. Is this similar to the situation with the ABS? Can you describe to the committee the work that was done with the ACCC?
Can you confirm the statement that the ACCC was “...given a government bailout to pay for golden handshakes among the 870-strong workforce....”?

Answer:

- a) The Governance and Resource Management Group and Budget Group are undertaking the assessment process in consultation with the Australian Public Service Commission.
- b) The process for the 2013-14 component of the measure includes assessment of agency applications (including workforce planning documentation) to determine whether funding under the measure would assist the financial sustainability of the agency. The assessments for 2013-14 are in progress.

The work for the 2014-15 component will commence after the 2014-15 Budget.

- c) The guidelines were circulated to agencies on 19 December 2013.
- d) An operating loss is an accrual accounting concept that means the expenses incurred in a financial year exceed the revenues earned in that same financial year.
- e) An agency could incur an operating loss as a result of one or a combination of reasons. Broadly these reasons are categorised as:

Timing – losses resulting from the difference in timing between the recognition of revenue and expenses in the Comprehensive Income Statement as required by accounting standards.

Accounting – losses resulting from adjustments to non-cash expenses due to accounting treatments as required by accounting standards such as revaluations or the impairment (write-down) of assets and/or liabilities, or a recalculation of accrued employee entitlements or depreciation;

One-Off Costs – losses resulting from one-off factors, such expenses related to new systems, office relocation or staff redundancies; or

Higher Net Expenditure – losses that may be due to a number of factors and are likely to be an indicator that unsustainable erosion of equity will continue in the future.

- f) Of the 34 agencies that incurred an operating loss in 2012-13, 13 agencies had more than one reason contributing towards the operating loss.
 - Accounting treatments contributed to 11 agencies' operating losses,
 - Differences in timing contributed to 15 agencies' operating losses,
 - One-off-expense contributed to 10 agencies' operating losses,
 - High net expenditure contributed to 5 agencies' operating losses, and
 - Other reasons contributed to 8 operating losses.
- g) Depreciation and amortisation expenses are non-cash expenses in an agency's Comprehensive Income Statement that allocate the value of an asset, over its useful life.
 - a. Depreciation relates to a physical asset such as a building or a computer, whereas amortisation relates to intangible assets such as computer software.

- h) From the introduction of accrual accounting in 1999, the budget framework allowed for agencies to be funded for depreciation and amortisation expenses. However, the introduction of the net cash appropriation arrangements, as part of the 2010-11 Budget, resulted in changes to how agencies are funded for depreciation/amortisation.

Under the net cash appropriation arrangement, agencies under the *Financial Management and Accountability (FMA) Act 1997*, excluding the Department of Defence and the Defence Material Organisation, receive Departmental Capital Budgets (DCBs) in the form of equity instead of funding for depreciation/amortisation that was previously provided as appropriation revenue. The net cash arrangements do not apply to *Commonwealth Authorities and Companies (CAC) Act 1997* bodies except under certain circumstances.

Agencies designated as Collecting Institutions are provided with a Collection Development Acquisition Budget (CDAB) in the form of equity instead of funding for depreciation expenses on their Heritage and Cultural assets. Agencies that are currently not subject to the net cash appropriation arrangement receive depreciation/amortisation funding from the Government, through external revenue sources and from cost recovery activities or both.

For agencies that receive a DCB or CDAB, approval for an operating loss from the Minister for Finance is required where the operating result is still negative after adjusting (adding back) unfunded depreciation/amortisation expenses.

While an agency's Comprehensive Income Statement shows the operating result inclusive of depreciation / amortisation expenses, a 'Note' to the financial statements (of affected agencies) shows the above calculation.

- i) Depreciation and amortisation expense affects the operating result of an agency but has a nil impact on underlying cash balance as it is a non-cash expense.
- j) Unfunded depreciation/amortisation expenses are excluded in the calculation to determine an operating loss for agencies subject to the net cash appropriation arrangements (i.e. those agencies that receive a DCB or CDAB). For all other agencies, these expenses are included.
- k) The Department of Finance assesses agencies' budgetary situations as a part of its routine work. For example, Finance assesses applications for operating losses and costing policy proposals from Portfolio Ministers, and advises the Minister for Finance accordingly including the reasons for the operating loss.

If issues are identified in relation to an agency's budget, depending on the severity, it would be discussed with the relevant agency and if necessary raised in briefings to the Minister for Finance and/or Government.

- l) There has been no request from the Government for the Department of Finance to undertake specific work relating to the ABS outside its usual budget work.
- m) See response to (k).

The ACCC has undertaken an independent examination of its governance, budget controls and financial position (Press release by the Minister for Small Business; 23 January 2014).

There has been no request from the Government for the Department of Finance to undertake specific work relating to the ACCC outside its usual budget work.

The ACCC received an additional \$23.8 million for operational purposes at MYEFO. Without that corrective action the ACCC would have been running at a loss.