EDUCATION, SCIENCE AND TRAINING

SENATE LEGISLATION COMMITTEE - QUESTIONS ON NOTICE
2003-2004 ADDITIONAL ESTIMATES HEARING

Outcome: 1
Output Group: ARC

DEST Question No. E815_04

Senator Carr provided in writing.

Question:

On p.8 of the Annual Report you refer to the administrative requirements pursuant to your becoming a statutory agency. (Annual Report p. 8)

What have been the financial changes, and financial reporting changes, necessary to accompany the administrative changes?

Do these account for some of the apparently major differences in your financial statements, between 2002 and 2003?

Can you take me through these?
For example, what is the reason for the drop in your net surplus – from $2.2 million in 2002 to $0.9 million in 2003? (Annual Report p. 128)

In the statement of cash flow, for operating activities, there is a huge increase in "cash used" from $9.6 million to $16.8 million. What is the explanation for this? (Annual Report p. 130)

Under Financing Activities on the same page, the adjustments for "cash held" presumably have something to do with the new arrangements. Is that correct? Can you explain?

Can you explain the differences in cash used in operating activities, cash received in financing activities and net cash on p.133? (Annual Report p. 133)

Capital use charge

Why has the Government decided to abolish the Capital use charge as it applies to the ARC from 2004?

Answer:

ARC financial statements: new arrangements relating to transition to statutory authority

The ARC has provided the following response:

From July 2001, the ARC is designated a prescribed agency under the *Financial Management and Accountability Act 1997* and a material agency for the purposes of whole of government financial reporting. The ARC has the same reporting responsibilities as a department. Before July 2001 the ARC's activities were not reported separately (the activities were subsumed in the reports of the Department of Education, Science and Training).

Specifically, the ARC maintains its own budget estimates, manages its own bank accounts, produces its own financial statements and undertakes monthly financial reporting to the Department of Finance, manages its own payroll, produces its own FBT and GST returns to the ATO, operates its own financial management and information system and pays its own accounts.

In 2001-02 the majority of these services were provided by DEST under a Memorandum of Understanding (MoU) but were undertaken in full by the ARC in 2002-03. This accounts for some of the increase in employee and depreciation expenses between 2002 and 2003.

ARC financial statements: reduction in operating surplus between 2002 and 2003 (p128 Annual Report)

The major reasons for the reduction in the operating surplus for the ARC are:

- A $0.652 million increase in employee expenses associated with an increase in average staffing levels (ASL) from 52 in 2001-02 to 56 in 2002-03;

- A $0.639 million increase in suppliers expenses including increases in payments to Australian Readers ($0.212 million), and increased Board and Expert Advisory Committee member costs ($0.201 million) as per Remuneration Tribunal Determinations 2002/10 and 2003/03;

- A $0.329 million increase in depreciation and amortisation expenses due to asset purchases during 2002-03, principally related to a PC replacement program; and

- An offset to the above expense increases from a $0.350 million increase in the appropriation revenue between 2001-02 and 2002-03.

In addition, the operating surplus for the ARC also reflects the appropriation funding for the capital use charge (CUC) payable to DoFA but not reflected as an expense. The CUC incurred was $0.678 million in 2002-03 and $0.762 million in 2001-02 (see Note 6 to the financial statements on p149 of the Annual Report).

ARC financial statements: cash flow variances between 2002 and 2003 (p130 Annual Report)

As part of the Budget Estimates Framework Review undertaken in 2002, the Government decided to discontinue the Agency Banking Incentive Scheme from 1 July 2003. These revised cash management arrangements mean that Commonwealth agencies no longer retain any surplus cash but draw down cash from the Official Public Account only as needed. As part of implementing this just-in-time draw down model, agencies needed to return their cash surpluses to the Official Public Account.

This return of cash to the OPA accounts for $5.7 million of the $16.8 million cash used for operating activities in the 2003 cash flow statement. The balance of the increase in cash used for operating activities relates largely to the increased operating expenses described above.

Together these items also explain the variation in cash held under Financing Activities in the Administered Cash Flow Statement.

ARC financial statements: Administered cash flow variances between 2002 and 2003 (p133 Annual Report)

The increase in Administered cash flows for operating activities between 2002 and 2003 relates to the increase in funding for the National Competitive Grants Program under the *Backing Australia's Ability* initiative.

The Administered cash flows for financing activities relates to the payment of GST on grants to non-government (Commonwealth or State) institutions. Funding for these GST payments are drawn from a special GST appropriation and claimed back from the ATO as input tax credits in the ARC's monthly BAS returns. These input tax credits are then returned to the OPA when they are received from the ATO. Under these arrangements the net cash from financing activities represents GST payments drawn down and made to the ATO but not yet claimed back as input tax credits in the following month's BAS.

Capital use charge

As part of the Budget Estimates Framework Review undertaken in 2002, the Government decided to discontinue the capital use charge from 1 July 2003. This applied to all Commonwealth agencies.