**Department of Education and Training**

**Financial Statements**

*for the period ended 30 June 2017*

In our opinion, the attached financial statements for the year ended 30 June 2017 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In preparing the financial statements, the department has applied an exemption from subsection 18(3) of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* which has been provided by the Minister for Finance. The effect of this exemption is to allow the department to apply tier 2 rather than tier 1, reporting requirements to departmental disclosures in respect of AASB 7 *Financial Instruments: Disclosure* and AASB 13 *Fair Value Measurement.*

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Department of Education and Training will be able to pay its debts as and when they fall due.

Signed..........................................

Marcus Markovic

Chief Financial Officer

12 September 2017

Signed..........................................

Dr Michele Bruniges AM

Secretary

12 September 2017

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|  |  | **2017** |  | 2016 |  | 2017 Original Budget¹ |
|  | **Notes** | **$'000** |  | $'000 |  | $'000 |
| **NET COST OF SERVICES** |  |  |  |  |  |  |
| **EXPENSES** |  |  |  |  |  |  |
| Employee benefits | A1.1 | **229,309** |  | 217,807 |  | 226,254 |
| Supplier | A1.2 | **138,985** |  | 127,923 |  | 119,758 |
| Grants |  | **131** |  | 629 |  | - |
| Depreciation and amortisation | B2.1 | **23,979** |  | 25,168 |  | 35,127 |
| Write-down and impairment of assets | A1.3 | **492** |  | 3,959 |  | - |
| Losses from asset sales | A1.4 | **2** |  | 234 |  | - |
| **Total expenses** |  | **392,898** |  | 375,720 |  | 381,139 |
|  |  |  |  |  |  |  |
| **OWN-SOURCE INCOME** |  |  |  |  |  |  |
| **Own-source revenue** |  |  |  |  |  |  |
| Sale of goods and rendering of services | A2.1 | **14,666** |  | 19,819 |  | 21,294 |
| Rental income | A2.2 | **6,778** |  | 9,917 |  | - |
| **Total own-source revenue** |  | **21,444** |  | 29,736 |  | 21,294 |
|  |  |  |  |  |  |  |
| **Gains** |  |  |  |  |  |  |
| Resources received free of charge | A2.3 | **9,335** |  | 6,446 |  | 6,743 |
| Reversal of previous asset write-downs | A2.4 | **976** |  | - |  | - |
| Other gains | A2.5 | **343** |  | 2,194 |  | - |
| **Total gains** |  | **10,654** |  | 8,640 |  | 6,743 |
| **Total own-source income** |  | **32,098** |  | 38,376 |  | 28,037 |
|  |  |  |  |  |  |  |
| **Net cost of services** |  | **360,800** |  | 337,344 |  | 353,102 |
|  |  |  |  |  |  |  |
| Revenue from Government | A2.6 | **339,789** |  | 313,127 |  | 317,975 |
| **Deficit on continuing operations** |  | **(21,011)** |  | (24,217) |  | (35,127) |
|  |  |  |  |  |  |  |
| **OTHER COMPREHENSIVE INCOME** |  |  |  |  |  |  |
| Change in asset revaluation reserves |  | **-** |  | 806 |  | - |
| **Total other comprehensive income** |  | **-** |  | 806 |  | - |
|  |  |  |  |  |  |  |
| **Total comprehensive loss** | C4 | **(21,011)** |  | (23,411) |  | (35,127) |

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|  |  | **2017** |  | 2016 |  | 2017 Original Budget¹ |
|  | **Notes** | **$'000** |  | $'000 |  | $'000 |
| **ASSETS** |  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |  |
| Cash and cash equivalents | B1.1 | **5,831** |  | 6,132 |  | 6,631 |
| Trade and other receivables | B1.2 | **66,266** |  | 84,081 |  | 56,721 |
| Accrued revenue |  | **4,183** |  | 1,996 |  | 3,276 |
| **Total financial assets** |  | **76,280** |  | 92,209 |  | 66,628 |
|  |  |  |  |  |  |  |
| **Non-financial assets** |  |  |  |  |  |  |
| Land and buildings | B2.1 | **35,784** |  | 37,137 |  | 34,000 |
| Infrastructure, plant and equipment | B2.1 | **1,105** |  | 12,659 |  | 14,675 |
| Computer software | B2.1 | **60,531** |  | 75,589 |  | 88,236 |
| Prepayments |  | **2,765** |  | 10,126 |  | 10,728 |
| **Total non-financial assets** |  | **100,185** |  | 135,511 |  | 147,639 |
|  |  |  |  |  |  |  |
| **Total assets** |  | **176,465** |  | 227,720 |  | 214,267 |
|  |  |  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |  |  |
| **Payables** |  |  |  |  |  |  |
| Supplier | B3.1 | **29,677** |  | 31,663 |  | 25,741 |
| Other payables | B3.2 | **18,237** |  | 20,329 |  | 26,589 |
| **Total payables** |  | **47,914** |  | 51,992 |  | 52,330 |
|  |  |  |  |  |  |  |
| **Provisions** |  |  |  |  |  |  |
| Employee provisions | B4.1 | **66,531** |  | 73,150 |  | 67,573 |
| Other provisions | B4.2 | **532** |  | 1,739 |  | 3,106 |
| **Total provisions** |  | **67,063** |  | 74,889 |  | 70,679 |
|  |  |  |  |  |  |  |
| **Total liabilities** |  | **114,977** |  | 126,881 |  | 123,009 |
|  |  |  |  |  |  |  |
| **Net assets** |  | **61,488** |  | 100,839 |  | 91,258 |
|  |  |  |  |  |  |  |
| **EQUITY** |  |  |  |  |  |  |
| Contributed equity |  | **152,273** |  | 170,610 |  | 137,702 |
| Reserves |  | **1,244** |  | 1,244 |  | 438 |
| Accumulated deficit |  | **(92,029)** |  | (71,015) |  | (46,882) |
| **Total equity** |  | **61,488** |  | 100,839 |  | 91,258 |

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|  |  | **2017** |  | 2016 |  | 2017 Original Budget¹ |
|  | **Notes** | **$'000** |  | $'000 |  | $'000 |
| **CONTRIBUTED EQUITY** |  |  |  |  |  |  |
| **Opening balance** |  |  |  |  |  |  |
| Balance carried forward from previous period |  | **170,610** |  | 134,848 |  | 110,348 |
| Adjustment for rounding |  | **(2)** |  | (1) |  | - |
| **Adjusted opening balance** |  | **170,608** |  | 134,847 |  | 110,348 |
| **Transactions with owners** |  |  |  |  |  |  |
| **Contributions by owners** |  |  |  |  |  |  |
| Equity injection - appropriation |  | **5,985** |  | 10,438 |  | 2,993 |
| Departmental capital budget |  | **23,281** |  | 21,677 |  | 24,361 |
| Restructuring | D2.1 | **(47,601)** |  | 3,648 |  | - |
| **Total transactions with owners** |  | **(18,335)** |  | 35,763 |  | 27,354 |
| **Closing balance as at 30 June** |  | **152,273** |  | 170,610 |  | 137,702 |
|  |  |  |  |  |  |  |
| **ACCUMULATED DEFICIT** |  |  |  |  |  |  |
| **Opening balance** |  |  |  |  |  |  |
| Balance carried forward from previous period |  | **(71,015)** |  | (46,130) |  | (11,755) |
| Prior year adjustment | B1.2 | **-** |  | (668) |  | - |
| Adjustment for rounding |  | **(3)** |  | - |  | - |
| **Adjusted opening balance** |  | **(71,018)** |  | (46,798) |  | (11,755) |
| **Comprehensive income** |  |  |  |  |  |  |
| Deficit on continuing operations |  | **(21,011)** |  | (24,217) |  | (35,127) |
| **Closing balance as at 30 June** |  | **(92,029)** |  | (71,015) |  | (46,882) |
|  |  |  |  |  |  |  |
| **ASSET REVALUATION RESERVES** |  |  |  |  |  |  |
| **Opening balance** |  |  |  |  |  |  |
| Balance carried forward from previous period |  | **1,244** |  | 438 |  | 438 |
| **Adjusted opening balance** |  | **1,244** |  | 438 |  | 438 |
| **Comprehensive income** |  |  |  |  |  |  |
| Other comprehensive income - changes in reserves |  | **-** |  | 806 |  | - |
| **Closing balance as at 30 June** |  | **1,244** |  | 1,244 |  | 438 |
|  |  |  |  |  |  |  |
| **Total equity as at 30 June** |  | **61,488** |  | 100,839 |  | 91,258 |

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|  |  | **2017** |  | 2016 |  | 2017 Original Budget¹ |
|  | **Notes** | **$'000** |  | $'000 |  | $'000 |
| **OPERATING ACTIVITIES** |  |  |  |  |  |  |
| **Cash received** |  |  |  |  |  |  |
| Appropriations |  | **345,457** |  | 336,174 |  | 318,272 |
| Sale of goods and rendering of services |  | **9,700** |  | 17,340 |  | 19,574 |
| Net GST received |  | **9,407** |  | 7,017 |  | - |
| Other |  | **7,701** |  | 12,839 |  | 1,720 |
| **Total cash received** |  | **372,265** |  | 373,370 |  | 339,566 |
|  |  |  |  |  |  |  |
| **Cash used** |  |  |  |  |  |  |
| Employee benefits |  | **222,892** |  | 211,878 |  | 226,552 |
| Supplier |  | **135,005** |  | 133,176 |  | 113,014 |
| Grants |  | **131** |  | 629 |  | - |
| Section 74 receipts transferred to the   Official Public Account (OPA) |  | **17,241** |  | 30,665 |  | - |
| **Total cash used** |  | **375,269** |  | 376,348 |  | 339,566 |
|  |  |  |  |  |  |  |
| **Net cash used by operating activities** |  | **(3,004)** |  | (2,978) |  | - |
|  |  |  |  |  |  |  |
| **INVESTING ACTIVITIES** |  |  |  |  |  |  |
| **Cash received** |  |  |  |  |  |  |
| Proceeds from sale of infrastructure, plant and   equipment |  | **4** |  | 23 |  | - |
| **Total cash received** |  | **4** |  | 23 |  | - |
|  |  |  |  |  |  |  |
| **Cash used** |  |  |  |  |  |  |
| Purchase / development of computer software |  | **16,080** |  | 23,386 |  | 27,354 |
| Purchase of land and buildings |  | **3,158** |  | 1,387 |  | - |
| Purchase of infrastructure, plant and equipment |  | **291** |  | 3,427 |  | - |
| **Total cash used** |  | **19,529** |  | 28,200 |  | 27,354 |
|  |  |  |  |  |  |  |
| **Net cash used by investing activities** |  | **(19,525)** |  | (28,177) |  | (27,354) |
|  |  |  |  |  |  |  |
| **FINANCING ACTIVITIES** |  |  |  |  |  |  |
| **Cash received** |  |  |  |  |  |  |
| Contributed equity - capital injections |  | **9,135** |  | 8,023 |  | - |
| Contributed equity - departmental capital budget |  | **13,093** |  | 19,447 |  | 27,354 |
| **Total cash received** |  | **22,228** |  | 27,470 |  | 27,354 |
|  |  |  |  |  |  |  |
| **Net cash from financing activities** |  | **22,228** |  | 27,470 |  | 27,354 |
|  |  |  |  |  |  |  |
| **Net decrease in cash held** |  | **(301)** |  | (3,685) |  | - |
| Cash and cash equivalents at the beginning of the   reporting period |  | **6,132** |  | 9,817 |  | 6,631 |
| **Cash and cash equivalents at the end of the reporting period** | B1.1 | **5,831** |  | 6,132 |  | 6,631 |

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|  |  | **2017** |  | 2016 |  | 2017 Original Budget¹ |
|  | **Notes** | **$'000** |  | $'000 |  | $'000 |
| **NET COST OF SERVICES** |  |  |  |  |  |  |
| **EXPENSES** |  |  |  |  |  |  |
| Supplier | A3.1 | **675,657** |  | 598,827 |  | 689,762 |
| Subsidies | A3.2 | **416,764** |  | 327,810 |  | 398,504 |
| Personal benefits | A3.3 | **7,342,692** |  | 5,092,274 |  | 8,311,026 |
| Grants | A3.4 | **26,892,895** |  | 25,725,320 |  | 27,242,178 |
| Concessional loan discount |  | **-** |  | 636,237 |  | 1,040,956 |
| Write-down and impairment of assets | A3.5 | **73,881** |  | 18,595 |  | 149 |
| Payments to corporate Commonwealth entities |  | **19,891** |  | 15,009 |  | 25,057 |
| Fair value losses | A3.6 | **6,060,445** |  | 1,058,199 |  | 1,679,203 |
| Act of grace payments |  | **2,091** |  | 147 |  | - |
| **Total expenses** |  | **41,484,316** |  | 33,472,418 |  | 39,386,835 |
|  |  |  |  |  |  |  |
| **INCOME** |  |  |  |  |  |  |
| **Revenue** |  |  |  |  |  |  |
| **Taxation revenue** |  |  |  |  |  |  |
| Levies |  | **9,774** |  | 10,144 |  | 8,689 |
| **Total taxation revenue** |  | **9,774** |  | 10,144 |  | 8,689 |
|  |  |  |  |  |  |  |
| **Non-taxation revenue** |  |  |  |  |  |  |
| Interest | A4.1 | **503,048** |  | 529,337 |  | 1,377,000 |
| Other revenue | A4.2 | **399,397** |  | 813,177 |  | 796,535 |
| **Total non-taxation revenue** |  | **902,445** |  | 1,342,514 |  | 2,173,535 |
| **Total revenue** |  | **912,219** |  | 1,352,658 |  | 2,182,224 |
|  |  |  |  |  |  |  |
| **Gains** |  |  |  |  |  |  |
| Fair value gains | A4.3 | **402,418** |  | - |  | - |
| Reversal of previous asset write-downs and   impairment | A4.4 | **675** |  | - |  | - |
| **Total gains** |  | **403,093** |  | - |  | - |
| **Total income** |  | **1,315,312** |  | 1,352,658 |  | 2,182,224 |
|  |  |  |  |  |  |  |
| **Net cost of services** |  | **40,169,004** |  | 32,119,760 |  | 37,204,611 |
| **Deficit** |  | **(40,169,004)** |  | (32,119,760) |  | (37,204,611) |
|  |  |  |  |  |  |  |
| **OTHER COMPREHENSIVE INCOME** |  |  |  |  |  |  |
| Change in asset revaluation surplus | B5.3 | **220,047** |  | (31,593) |  | - |
| **Total other comprehensive surplus (loss)** |  | **220,047** |  | (31,593) |  | - |
|  |  |  |  |  |  |  |
| **Total comprehensive loss** |  | **(39,948,957)** |  | (32,151,353) |  | (37,204,611) |
|  |  |  |  |  |  |  |

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|  |  | **2017** |  | 2016 |  | 2017 Original Budget¹ |
|  | **Notes** | **$'000** |  | $'000 |  | $'000 |
| **ASSETS** |  |  |  |  |  |  |
| **Financial assets** |  |  |  |  |  |  |
| Cash and cash equivalents | B5.1 | **85,478** |  | 72,092 |  | - |
| Receivables | B5.2 | **37,122,775** |  | 37,870,400 |  | 45,698,517 |
| Investments | B5.3 | **2,338,384** |  | 2,118,337 |  | 2,150,529 |
| **Total financial assets** |  | **39,546,637** |  | 40,060,829 |  | 47,849,046 |
|  |  |  |  |  |  |  |
| **Non-financial assets** |  |  |  |  |  |  |
| Prepayments |  | **-** |  | 240 |  | - |
| **Total non-financial assets** |  | **-** |  | 240 |  | - |
|  |  |  |  |  |  |  |
| **Total assets administered on behalf of   Government** |  | **39,546,637** |  | 40,061,069 |  | 47,849,046 |
|  |  |  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |  |  |
| **Payables** |  |  |  |  |  |  |
| Trade creditors and accruals | B6.1 | **95,137** |  | 57,624 |  | 54,345 |
| Personal benefits |  | **117,778** |  | 149,271 |  | 190,130 |
| Grants | B6.2 | **13,744** |  | 3,318 |  | 36,133 |
| Statutory payable |  | **15,195** |  | 37,081 |  | 17,701 |
| **Total payables** |  | **241,854** |  | 247,294 |  | 298,309 |
|  |  |  |  |  |  |  |
| **Provisions** |  |  |  |  |  |  |
| Personal benefits | B7.1 | **979,439** |  | 872,819 |  | 1,307,785 |
| Higher education superannuation program | B7.1 | **6,467,000** |  | 6,959,011 |  | 5,973,915 |
| **Total provisions** |  | **7,446,439** |  | 7,831,830 |  | 7,281,700 |
|  |  |  |  |  |  |  |
| **Total liabilities administered on behalf of   Government** |  | **7,688,293** |  | 8,079,124 |  | 7,580,009 |
|  |  |  |  |  |  |  |
| **Net assets** |  | **31,858,344** |  | 31,981,945 |  | 40,269,037 |
|  | C:\Users\NG2733\AppData\Local\Temp\msohtmlclip1\01\clip_image001.gifC:\Users\NG2733\AppData\Local\Temp\msohtmlclip1\01\clip_image001.gifC:\Users\NG2733\AppData\Local\Temp\msohtmlclip1\01\clip_image001.gifC:\Users\NG2733\AppData\Local\Temp\msohtmlclip1\01\clip_image001.gifC:\Users\NG2733\AppData\Local\Temp\msohtmlclip1\01\clip_image001.gif |  |  |  |  |  |

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| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
|  | **$'000** |  | $'000 |
|  |  |  |  |
| **Opening assets less liabilities as at 1 July** | **31,981,945** |  | 26,928,237 |
| **Net (cost of) contribution by services** |  |  |  |
| Income | **1,315,312** |  | 1,352,658 |
| Expenses |  |  |  |
| Other than corporate Commonwealth entities | **(41,464,425)** |  | (33,457,409) |
| Corporate Commonwealth entities | **(19,891)** |  | (15,009) |
| **Other comprehensive income** |  |  |  |
| Revaluations transferred to (from) reserves | **220,047** |  | (31,593) |
| **Transfers (to) from the Australian Government** |  |  |  |
| Appropriation transfers from the OPA |  |  |  |
| Annual appropriations |  |  |  |
| Payments to entities other than corporate Commonwealth entities | **1,640,366** |  | 1,451,762 |
| Payments to corporate Commonwealth entities | **19,891** |  | 15,009 |
| Special appropriations (unlimited) |  |  |  |
| Payments to entities other than corporate Commonwealth entities | **40,935,029** |  | 38,466,432 |
| Appropriation transfers to the OPA |  |  |  |
| Transfers to the OPA | **(2,736,866)** |  | (2,279,438) |
| Transfers to the OPA (withholdings) | **(30,318)** |  | (14,374) |
| Restructuring | **-** |  | (434,327) |
| Other movements | **(2,746)** |  | (3) |
| **Closing assets less liabilities as at 30 June** | **31,858,344** |  | 31,981,945 |
|  |  |  |  |
| Revenue collected by the department for use by the Government rather than the department is administered revenue. Collections are transferred to the OPA, maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under appropriation on behalf of Government. These transfers to and from the OPA are adjustments to the administered cash held by the department on behalf of the Government and reported as such in the administered cash flow statement and in the administered reconciliation schedule. | | | |
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| --- | --- | --- | --- | --- |
|  |  | **2017** |  | 2016 |
|  | **Notes** | **$'000** |  | $'000 |
| **OPERATING ACTIVITIES** |  |  |  |  |
| **Cash received** |  |  |  |  |
| Interest |  | **44** |  | 7 |
| Net GST received |  | **1,176,776** |  | 1,103,762 |
| Levies |  | **9,774** |  | 10,144 |
| Other revenue |  | **149,116** |  | 137,654 |
| **Total cash received** |  | **1,335,710** |  | 1,251,567 |
|  |  |  |  |  |
| **Cash used** |  |  |  |  |
| Suppliers |  | **779,784** |  | 1,680,588 |
| Subsidies |  | **416,764** |  | 327,810 |
| Personal benefits |  | **7,266,842** |  | 5,044,934 |
| Grants |  | **28,132,663** |  | 25,735,881 |
| Payments to corporate Commonwealth entities |  | **19,891** |  | 15,009 |
| **Total cash used** |  | **36,615,944** |  | 32,804,222 |
| **Net cash used by operating activities** |  | **(35,280,234)** |  | (31,552,655) |
|  |  |  |  |  |
| **INVESTING ACTIVITIES** |  |  |  |  |
| **Cash received** |  |  |  |  |
| Repayments of loans |  | **2,388,159** |  | 2,165,832 |
| **Total cash received** |  | **2,388,159** |  | 2,165,832 |
|  |  |  |  |  |
| **Cash used** |  |  |  |  |
| Loans provided |  | **6,995,987** |  | 8,295,624 |
| **Total cash used** |  | **6,995,987** |  | 8,295,624 |
| **Net cash used by investing activities** |  | **(4,607,828)** |  | (6,129,792) |
|  |  |  |  |  |
| **Net decrease in cash held** |  | **(39,888,062)** |  | (37,682,447) |
|  |  |  |  |  |
| **Cash from the Official Public Account** |  |  |  |  |
| Appropriations |  | **42,595,286** |  | 39,933,192 |
| GST appropriations |  | **1,169,788** |  | 89,706 |
| Special accounts |  | **36,536** |  | 73,494 |
| **Total cash from the Official Public Account** |  | **43,801,610** |  | 40,096,392 |
|  |  |  |  |  |
| **Cash to the Official Public Account** |  |  |  |  |
| Appropriations |  | **(2,657,925)** |  | (2,279,420) |
| Return of GST appropriations |  | **(1,192,314)** |  | (71,577) |
| Special accounts |  | **(49,923)** |  | (16,988) |
| **Total cash to the Official Public Account** |  | **(3,900,162)** |  | (2,367,985) |
|  |  |  |  |  |
| Cash and cash equivalents at the beginning of the reporting period | | **72,092** |  | 26,132 |
| **Cash and cash equivalents at the end of the reporting period** | B5.1 | **85,478** |  | 72,092 |
|  |  |  |  |  |

Financial Performance 15

A1: Expenses 15

A2: Income 16

A3: Administered – Expenses 18

A4: Administered – Income 20

B: Financial Position 21

B1: Financial Assets 21

B2: Non-Financial Assets 22

B3: Payables 24

B4: Provisions 25

B5: Administered – Financial Assets 26

B6: Administered – Payables 28

B7: Administered – Provisions 29

C: Funding 30

C1: Appropriations 30

C2: Special Accounts 33

C3: Regulatory Charging 37

C4: Net Cash Appropriation Arrangements 37

D: Other Items 38

D1: Contingent Assets and Liabilities 38

D2: Restructuring 39

D3: Key Management Personnel Remuneration 41

D4: Related Party Disclosures 41

D5: Budgetary Reporting 42

D6: Administered – Budgetary Reporting 43

E: Managing Uncertainties 44

E1: Financial Instruments 44

E2: Administered – Financial Instruments 45

E3: Fair Value Measurement 48

E4: Administered Fair Value Measurement 49

Overview

Objectives of the Department of Education and Training

The Department of Education and Training (the department) is an Australian Government controlled not-for-profit entity.

The department provides advice to the Government and administers programs to achieve the Government’s objectives for education and training. The department works in partnership with the states and territories, non-government authorities, providers and industry.

For the financial period ended 30 June 2017, the department was structured to meet the following outcomes:

**Outcome 1:** Improved early learning, schooling, student educational outcomes and transitions to and from school through access to quality child care, support, parent engagement, quality teaching and learning environments.

**Outcome 2:** Promote growth in economic productivity and social wellbeing through access to quality higher education, international education, and international quality research, skills and training.

The continued existence of the department in its present form and with its present programs is dependent on Government policy and on continuing funding by the Parliament for the department’s administration and programs.

The department’s activities contributing toward these outcomes are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by the department in its own right. Administered activities involve the management or oversight by the department, on behalf of the Government, of items controlled or incurred by the Government.

The Basis of Preparation

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The financial statements have been prepared in accordance with the *Public Governance, Performance and Accountability (Financial Reporting Rule) 2015* (FRR) and the Australian Accounting Standards and Interpretations.

In accordance with the FRR and AASB 1053 *Application of Tiers of Australian Accounting Standards and other reporting requirements*, the department has applied tier 2 reporting requirements (as a minimum).

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

**Reporting of Administered Activities**

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes.

Unless otherwise stated, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Tier 1 reporting requirements have been applied to administered disclosures in respect of AASB 7 *Financial Instrument: Disclosure* and AASB 13 *Fair Value Measurement.*

Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the department has not identified any accounting assumptions or estimates that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next reporting period.

During the 2016-17 financial year the department made the following judgements that had an impact on the amounts recorded in the financial statements.

The recreation and long service leave provisions are measured at the present value of the estimated future cash flows. In 2016-17 the Australian Government Actuary undertook an assessment of leave provisions taking into account the likely tenure of existing staff, patterns of leave claims and payouts, future salary movements and discount rates.

Australian Valuation Solutions undertook a valuation of non-financial assets as at 30 June 2017. This has resulted in a $1.0 million increase to the fair value of leasehold improvements.

Non-financial assets are assessed annually for impairment and where appropriate, the assets’ carrying value is written down.

*Personal benefits – child care fee assistance*

The child care fee assistance program is aimed at assisting families with the cost of child care. Recipients receive an estimated entitlement fortnightly, either as a fee reduction via the child care provider or in some instances directly. Recipients may also receive certain benefits quarterly or annually. The benefits are paid on the basis of an estimate of taxable income, and the subsequent lodgement of their tax return establishes actual income and an adjustment to the recipient’s entitlement.

At any point in time there are recipients entitled to receive benefits who have not received their full entitlement. The department estimates a provision for these benefits. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation as at the reporting date, taking into account the risk and uncertainties that surround the events and circumstances that affect the provision. The provision calculates the current year and earlier years’ liability for claims that have yet to be realised. The methodology considers the likely lodgement profiles with reconciliation top-ups, lump sum claims, and quarterly and fortnightly payments.

Conversely, there are also a number of eligible recipients who have received in excess of their entitlements and owe money to the Commonwealth. The department estimates a receivable for overpaid benefits.

In 2016-17 the child care estimation model was updated to use a single data source and undertake time series modelling based upon historic data over a statistically valid time period. An independent review confirmed that the estimation model provides a reliable and robust method to estimate the administered child care provision and receivable.

The child care impairment provision relies upon a profile of past customer behaviour and was last assessed by the Australian Government Actuary in 2016. The actuary is of the view that annual analysis is not justified given that changes in experience will typically emerge relatively slowly and an additional year of data is unlikely to be sufficient to unequivocally justify a change in assumptions. The next review will be undertaken in 2018.

As at 30 June 2017 the fair value of the personal benefits receivable is $0.4 billion (2016: $0.5 billion) and the provision $1.0 billion (2016: $0.9 billion). Notes B5.2 and B7.1 refers.

*Higher education loan program*

The higher education loan program (HELP) is an income contingent loan program that assists eligible tertiary education students with the cost of their fees. It is administered under *the Higher Education Support Act 2003* and the *VET Student Loans Act 2016*. The HELP debt, recognised as an administered receivable, comprises: HECS-HELP, FEE-HELP, OS-HELP, VET FEE-HELP and the VET student loans program. The Australian Taxation Office collects repayment of these debts through the tax system.

The Australian Government Actuary has developed a microsimulation model to provide estimates of a number of financial measures related to the HELP receivables, including an estimate of the debt that is not expected to be repaid. Significant judgements, estimates and assumptions are re-evaluated for each reporting period in the light of historical experience, new loan schemes and changes to reasonable expectations of future events. Consideration is given to: projections of future income of debtors, pattern and timing of repayments, changes in legislation, the recoverability of concessional debt and yield curve for discounting future cash flows. Only measures that have been legislated are incorporated into the estimates for financial statement reporting purposes.

The new VET student loans (VSL) program commenced on 1 January 2017, replacing the VET FEE-HELP scheme. The VSL program provides income contingent loans to eligible students undertaking vocational education and training in eligible courses. The contribution of VSL debt to total debt incurred in 2016-17 is relatively minor and any difference in repayment behaviour is considered immaterial in the context of the overall HELP receivable.

As at 30 June 2017 the Australian Government Actuary estimated the present value of the HELP debt to be $35.9 billion (2016: $36.8 billion) based upon the 45 year yield curve of Commonwealth bond rates and expected repayment patterns. This resulted in an administered fair value loss of $6.1 billion in 2016-17 (2015-16: $0.2 billion). Further information is provided at notes A3.6 and B5.2.

*Trade support loans scheme*

The trade support loans (TSL) scheme is an income contingent loan scheme that came into effect during 2014-15 to assist apprentices with costs of living while training toward their qualification. There are three elements of subsidy that need to be taken into account when considering the TSL receivable: debt not expected to be repaid due to the compulsory repayment threshold not being met; the deferral adjustment, that is the gap between the Commonwealth’s borrowing costs and the movement in the consumer price index (CPI); and the discount arising upon successful completion of the apprenticeship. Only measures that have been legislated are incorporated into the estimates for financial statement reporting purposes.

Having reference to advice from the Australian Government Actuary and noting the short period of time over which the scheme has been in operation and the uncertainty around: loan take up, income distribution, repayment prospects and prevailing discount rates, the present value of the TSL scheme as at 30 June 2017 is estimated at $282.5 million (2016: $145.7 million). A fair value loss of $10.2 million has been recorded in 2016-17 (2015‑16: $17.2 million) reflecting a reduction in the deferral rate to reflect current government bond and indexation rates. Notes B5.2 and A3.6 refers.

*Higher education superannuation program*

The higher education superannuation program (HESP) provides supplementary funding to eligible higher education providers to cover certain superannuation expenses incurred for staff who are members of identified State government emerging cost superannuation schemes. A portion of the funding is recovered from the relevant States under cost-sharing arrangements.

As at 30 June 2017 the Australian Government Actuary estimated the present value of the superannuation liability to be $6.5 billion (2016: $7.0 billion) using the 2033 Government bond rate of 3.0 per cent (2016: 2.7 per cent). The Australian Government Actuary estimated the State’s share of the total liability to be $0.4 billion (2016: $0.4 billion). Note B5.2 refers. A fair value gain of $0.4 billion has been recognised in 2016-17 (2015-16: fair value loss of $0.8 billion). Note A4.3 refers. Further information on the provision is provided at note B7.1.

New Australian Accounting Standards

*Adoption of new Australian Accounting Standard requirements*

All new, revised, amending standards and interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a material effect on the department’s financial statements.

AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* extends the scope of AASB 124 *Related Party Disclosures* to not-for-profit public sector entities and applies from 2016-17. The department has reported related party transactions in the notes to the financial statements, including key management personnel and related entity transactions.

Future Australian Accounting Standard Requirements

The following new standards, revised standards, interpretations and amending standards were issued by the Australian Accounting Standards Board prior to the sign-off date. They are expected to have a financial impact on the department for future reporting periods:

Changes to AASB 9 *Financial Instruments* are effective for reporting periods commencing after 1 January 2018. A detailed assessment is yet to be undertaken, however, based on a preliminary assessment, the standard is not expected to have a material impact on the transactions and balances recognised in the financial statements.

The department will apply AASB 15 *Revenue from Contracts with Customers* from 2019-20. The standard requires revenue from such contracts to be recognised as the entity transfers goods and services to the customer. A detailed assessment is yet to be undertaken, however, based on a preliminary assessment, the standard is not expected to have a material impact on the transactions and balances recognised in the financial statements.

The department will apply AASB 16 *Leases* from 2019-20. The standard will require the net present value of payments under most operating leases to be recognised as assets and liabilities. An initial assessment indicates that the implementation of the standard will have an impact on the financial statements; however, the department is yet to undertake a detailed review.

Taxation

Revenues, expenses and assets are recognised net of GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office and for receivables and payables.

Changes in Accounting Policy

There have been no changes to accounting policy that impact on the 2016-17 financial results or position.

Section 83 of the Constitution

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under appropriation made by law. Payments made which are not supported by an appropriation contravene section 83 of the Constitution.

The department has not identified any instances of non-compliance resulting from serious mismanagement. The identified non-compliance represents a very small proportion of the total payments made, both by value and by volume, and represents an administrative error.

In 2016-17 nine payments for the VSL program totalling $329,142 were incorrectly paid from the *Higher Education Support Act 2003* appropriation instead of the *VET Student Loans Act 2016* appropriation. This error has been rectified and controls put in place to prevent similar breaches occurring.

No breaches of section 83 of the Constitution were reported in 2015-16.

Comparatives and Prior Year Errors

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year and any prior year errors.

During 2016-17 some prior year accounting errors were identified. In accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* these errors have been corrected in the comparative figures and disclosed in the department’s 2016-17 financial statements. The total impact of these errors was to reduce the 2015-16 departmental operating result by $2.0 million and equity by $3.1 million. Further information is provided in notes A1.3, B1.2 and B4.1.

Accounting errors were also identified in the 2015-16 administered unspent annual appropriation amounts disclosed in the notes to the accounts. These have been restated to include $378.3 million of quarantined funds that were still legally available at 30 June 2016. Further information is provided in note C1.2.

The 2015-16 comparative figures in the regulatory charging note have also been corrected. These disclosure errors did not have an impact on the departmental or administered financial results or position. Further information is provided at note C3.1.

**Shared Service Arrangements**

The department and the Department of Employment (Employment) established a Shared Services Centre (SSC) that provided operational, transactional, advisory, and support functions for information technology and a range of corporate services from 1 July 2014 to 30 November 2016.

The SSC was classed as a joint operating arrangement under AASB 11 – *Joint Arrangements*, whereby the department and Employment had joint control of the arrangement with rights to the revenue, expenses, assets and obligations for the liabilities relating to the SSC. The rights and obligations, as well as the contributions by the partner departments were underpinned by a heads of agreement between the two partner departments.

The financial statements of both departments recognised their interest in the SSC with approximately 50 per cent recognised in both departments’ accounts up until 30 November 2016.

On 1 December 2016, following a machinery of government announcement, functions previously supported by the SSC transitioned to new arrangements with: core transactional services transferring to the Department of Finance; information and communications technology and other corporate services such as records management, mailroom, facilities, and financial viability assessments transferring to Employment; and library, and audio visual services returning to the department. The department has established memorandums of understanding with Employment and the Department of Finance for the provision of services that were transferred to their respective departments.

**Events after the Reporting Period**

There were no subsequent events that had the potential to significantly affect the ongoing structure or financial activities of the department.

Following the repeal of *Appropriation Acts 2014-15 (No.1* and *No 3)* on 1 July 2017, $283.2 million of administered funds is no longer available. Note C1.2 refers.

1. Financial Performance
   1. Expenses

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note A1.1: Employee benefits** | **$'000** |  | $'000 |
|  |  |  |  |
| Salaries and entitlements | **188,629** |  | 181,348 |
| Superannuation: |  |  |  |
| Defined contribution plans | **13,099** |  | 11,736 |
| Defined benefit plans | **20,359** |  | 19,308 |
| Separations and redundancies | **4,476** |  | 2,171 |
| Other employee expenses | **2,746** |  | 3,244 |
| **Total employee benefits** | **229,309** |  | 217,807 |

The accounting policies for employee benefits are described in note B4.1.

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A1.2: Supplier** |  |  |  |
|  |  |  |  |
| **Goods and services supplied or rendered** |  |  |  |
| Consultants and contractors | **38,021** |  | 34,934 |
| Travel | **3,163** |  | 4,298 |
| IT services | **30,575** |  | 23,090 |
| Property | **6,161** |  | 4,296 |
| Resources received free of charge | **9,335** |  | 6,446 |
| Other | **20,409** |  | 18,534 |
| **Total goods and services supplied or rendered** | **107,664** |  | 91,598 |
|  |  |  |  |
| Goods supplied | **3,025** |  | 1,398 |
| Services rendered | **104,639** |  | 90,200 |
| **Total goods and services supplied or rendered** | **107,664** |  | 91,598 |
|  |  |  |  |
| **Other supplier expenses** |  |  |  |
| Operating lease rentals | **29,105** |  | 34,158 |
| Workers compensation expenses | **2,216** |  | 2,167 |
| **Total other supplier expenses** | **31,321** |  | 36,325 |
| **Total supplier expenses** | **138,985** |  | 127,923 |
|  |  |  |  |
| **Leasing commitments** |  |  |  |
| The following significant leasing arrangements, representing 98 per cent of the department's lease commitments are as follows: | | | |
| (a) The department in its capacity as lessee for 50 Marcus Clarke Street, Canberra is subject to a 3.35 per cent fixed annual increase except for market reviews in May 2018 and May 2025. The current term for the office accommodation expires on 23 May 2025 with one five year option. | | | |
| (b) The department in its capacity as lessee for 226 Adelaide Terrace, Perth is subject to a 5 per cent fixed annual increases except for a market review in July 2017. The current term for the office accommodation expires on 5 July 2020 with one three year option. | | | |
|  |  |  |  |
| **Commitments for minimum lease payments in relation to non-cancellable operating leases (including GST)** | | | |
| Within 1 year | **30,982** |  | 35,037 |
| Between 1 to 5 years | **115,797** |  | 129,457 |
| More than 5 years | **86,304** |  | 126,672 |
| **Total operating lease commitments** | **233,083** |  | 291,166 |
| The above commitments include lease arrangements with the Department of Employment. | | | |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
|  | **$'000** |  | $'000 |
| **Note A1.3: Write-down and impairment of assets** |  |  |  |
|  |  |  |  |
| Impairment of receivables - goods and services | **316** |  | 98 |
| Impairment of computer software | **163** |  | 2,502 |
| Impairment of land and buildings | **-** |  | 80 |
| Write-down of infrastructure, plant and equipment1 | **3** |  | 1,187 |
| Write-down of land and buildings | **-** |  | 92 |
| Write-down of leasehold improvements | **10** |  | - |
| **Total write-down and impairment of assets** | **492** |  | 3,959 |

1Australian Valuation Solutions undertook a fair value revaluation in 2015-16 for all non-financial assets except for computer software. Leasehold improvement assets were revalued downwards and a decrement of $1.2 million was incorrectly recognised against the asset revaluation reserve rather than expense. This has been adjusted in the comparative figures to recognise $1.2 million as a write-down of assets expense and reinstate the asset revaluation reserve.

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A1.4: Losses from asset sales** |  |  |  |
|  |  |  |  |
| **Infrastructure, plant and equipment** |  |  |  |
| Carrying value of assets sold | **1** |  | 257 |
| Cost of disposal | **5** |  | - |
| Less: proceeds from sale | **(4)** |  | (23) |
| **Net loss from infrastructure, plant and equipment** | **2** |  | 234 |
| **Total losses from asset sales** | **2** |  | 234 |

* 1. Income

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **OWN-SOURCE REVENUE** |  |  |  |
|  |  |  |  |
| **Note A2.1: Sale of goods and rendering of services** |  |  |  |
|  |  |  |  |
| Provision of goods | **470** |  | 456 |
| Rendering of services | **14,196** |  | 19,363 |
| **Total sale of goods and rendering of services** | **14,666** |  | 19,819 |

Own source revenue mainly relates to the provision of services to other government entities.

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A2.2: Rental income** |  |  |  |
|  |  |  |  |
| Sublease rent | **6,778** |  | 9,917 |
| **Total rental income** | **6,778** |  | 9,917 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Sublease rental income commitments** |  |  |  |
| The department in its capacity as lessor of 50 Marcus Clarke Street Canberra subleases spaces to various public and private entities with the latest option period ending in May 2025. Leasing arrangements include a 3.35 per cent fixed annual increase in all years other than a market review in 2018.  The department in its capacity as lessor of 1 William Street Perth subleases space to a private entity with the lease end date being March 2018. Leasing arrangements are based on a fixed rate for the term of the lease.  The department in its capacity as lessor of 226 Adelaide Terrace Perth subleases spaces to various public entities with the latest lease end date being July 2020, with option periods to July 2023. Leasing arrangements include a fixed annual increase of between 4 and 5 per cent with market reviews occurring in 2017 and at commencement of the option period. | | | |
|  | **2017** |  | 2016 |
|  | **$'000** |  | $'000 |
| **Commitments for sublease rental income receivable (including GST)** |  |  |  |
| Within 1 year | **7,226** |  | 6,174 |
| Between 1 to 5 years | **10,424** |  | 8,144 |
| **Total sublease rental income commitment receivable** | **17,650** |  | 14,318 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A2.3: Resources received free of charge** |  |  |  |
|  |  |  |  |
| Australian Taxation Office collection of revenues on behalf of the department | **8,085** |  | 4,461 |
| Australian National Audit Office financial statement audit fee | **1,250** |  | 1,400 |
| Australian National Audit Office performance audit fee | **-** |  | 585 |
| **Total resources received free of charge** | **9,335** |  | 6,446 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A2.4: Reversal of previous asset write-downs** |  |  |  |
|  |  |  |  |
| Increase to the fair value of leasehold improvement assets | **976** |  | - |
| **Total reversal of previous asset write-downs** | **976** |  | - |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A2.5: Other gains** |  |  |  |

Other gains include incidental transactions and events outside of ordinary operations such as: contributions of assets at no cost or for nominal consideration recognised at their fair value when the asset qualifies for recognition and reversals of provisions.

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A2.6: Revenue from Government** |  |  |  |

Amounts appropriated for departmental outputs for the year (adjusted to reflect formal additions, reductions and restructures) are recognised as revenue from government when the department gains control of the appropriation.

Amounts appropriated which are designated as equity injections (less any formal reductions) and the departmental capital budget are recognised directly in contributed equity in that year.

Income and Expenses Administered on Behalf of Government

* 1. Administered – Expenses

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note A3.1: Supplier** | **$'000** |  | $'000 |
|  |  |  |  |
| **Services rendered** |  |  |  |
| Assistance to families with children1 | **56,232** |  | 8,461 |
| General research | **226** |  | 104 |
| Higher education | **9,747** |  | 18,499 |
| School education - specific funding | **47,229** |  | 36,280 |
| Vocational and industry training | **562,142** |  | 535,402 |
| **Total services rendered** | **675,576** |  | 598,746 |
|  |  |  |  |
| **Other supplier expenses** |  |  |  |
| Operating lease rentals | **81** |  | 81 |
| **Total other supplier expenses** | **81** |  | 81 |
| **Total supplier expenses** | **675,657** |  | 598,827 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Leasing commitments** |  |  |  |
| **Commitments for minimum lease payments in relation to non-cancellable operating leases (including GST)** | | | |
| Within 1 year | **89** |  | 46 |
| Between 1 to 5 years | **454** |  | 184 |
| More than 5 years | **799** |  | 523 |
| **Total operating lease commitments** | **1,342** |  | 753 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A3.2: Subsidies** |  |  |  |
|  |  |  |  |
| **Subsidies in connection with external parties** |  |  |  |
| Vocational and industry training | **361,766** |  | 327,118 |
| Assistance to families with children1 | **54,998** |  | 692 |
| **Total subsidies** | **416,764** |  | 327,810 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A3.3: Personal benefits** |  |  |  |
|  |  |  |  |
| Assistance to families with children1 | **7,296,879** |  | 5,028,007 |
| Trade support loan discount | **22,571** |  | 19,511 |
| Student assistance | **20,524** |  | 39,213 |
| Vocational and industry training | **2,718** |  | 5,543 |
| **Total personal benefits** | **7,342,692** |  | 5,092,274 |
|  |  |  |  |

1 Responsibility for the administration of assistance to families with children transferred from the Department of Social Services on 21 September 2015.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note A3.4: Grants** | **$'000** |  | $'000 |
|  |  |  |  |
| **Public sector** |  |  |  |
| Australian Government entities (related parties) | **44,156** |  | 37,944 |
| State and Territory Governments | **17,090,700** |  | 15,703,816 |
| **Private sector** |  |  |  |
| Non-profit organisations | **143,896** |  | 81,826 |
| Multi-jurisdictional sector | **9,402,019** |  | 9,570,689 |
| Other | **212,124** |  | 331,045 |
| **Total grants** | **26,892,895** |  | 25,725,320 |
|  |  |  |  |

The department administers a number of grant and subsidy schemes on behalf of the Australian Government.

Grant and subsidy liabilities are recognised to the extent that the services required to be performed by the grantee have been performed or the grant eligibility criteria have been satisfied, but payments due have not been made.

Under the Federal Financial Framework, the Department of the Treasury is accountable for the payment of grants under the National Partnership Agreements to the States and Territories. Payments made to and through State and Territory governments are reported as grants to State and Territory governments.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **Note A3.5: Write-down and impairment of assets** |  |  |  |
|  |  |  |  |
| Impairment of goods and services receivable | **70,646** |  | 789 |
| Impairment of personal benefits receivable | **3,235** |  | 17,806 |
| **Total write-down and impairment of assets** | **73,881** |  | 18,595 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A3.6: Fair value losses** |  |  |  |
|  |  |  |  |
| Higher education superannuation provision | **-** |  | 836,512 |
| Higher education loans | **6,050,278** |  | 204,445 |
| Trade support loans | **10,167** |  | 17,242 |
| **Total fair value losses** | **6,060,445** |  | 1,058,199 |
|  |  |  |  |

Changes in the fair value of the higher education superannuation provision, the higher education loans and the trade support loans are brought to account through the administered schedule of comprehensive income. Fair value gains are disclosed at note A4.3. Further information regarding fair value estimation of these balances is provided in the overview.

As at 30 June 2017, the Australian Government Actuary estimated the fair value of the higher education loans to be $35.9 billion. This balance takes into account new loans and repayments made during 2016-17, unwinding of discount and a fair value loss totalling $6.1 billion. The three main factors contributing to this loss are: modelling the VET FEE-HELP cohort (using this cohort’s future incomes and payment patterns) as a separate group within the total higher education loan program for existing debt, $2.0 billion; the estimated debt not expected to be recovered on new loans entered into during the year, $1.9 billion; applying the current indexation rate and yield curve to the actuarial model, $1.9 billion.

* 1. Administered – Income

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note A4.1: Interest** | **$'000** |  | $'000 |
|  |  |  |  |
| Higher education loans | **499,036** |  | 528,483 |
| Trade support loans | **3,968** |  | 847 |
| Other sources | **44** |  | 7 |
| **Total interest** | **503,048** |  | 529,337 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A4.2: Other revenue** |  |  |  |
|  |  |  |  |
| Loan fee revenue | **276,131** |  | 675,522 |
| Refunds of prior year payments | **51,623** |  | 40,797 |
| Education investment fund special account | **22,593** |  | 55,754 |
| Other special accounts | **18,370** |  | 4,591 |
| Cost recovery | **11,552** |  | 9,452 |
| Other | **19,128** |  | 27,061 |
| **Total other revenue** | **399,397** |  | 813,177 |
|  |  |  |  |

All administered revenues relate to ordinary activities performed by the department on behalf of the Australian Government. Administered appropriations are not revenues of the individual entity that oversees distribution or expenditure of funds as directed.

Administered fee revenue is recognised when the service is provided. Collectability of the debt is reviewed at balance date. Impairment allowances are made when collectability of the debt is judged to be less, rather than more likely.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **Note A4.3: Fair value gains** |  |  |  |
|  |  |  |  |
| Higher education superannuation provision | **402,418** |  | - |
| **Total fair value gains** | **402,418** |  | - |
|  |  |  |  |

Changes in the fair value of the higher education superannuation provision, the higher education loans and the trade support loans are brought to account through the administered schedule of comprehensive income. Fair value losses are disclosed at note A3.6. Further information regarding fair value estimation of these balances is provided in the overview.

|  |  |  |  |
| --- | --- | --- | --- |
| **Note A4.4: Reversal of previous asset write-downs and impairment** |  |  |  |
|  |  |  |  |
| Reversal of impairment losses for goods and services receivable | **675** |  | - |
| **Total reversal of previous asset write-downs and impairment** | **675** |  | - |
|  |  |  |  |

1. Financial Position
   1. Financial Assets

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note B1.1: Cash and cash equivalents** | **$'000** |  | $'000 |
|  |  |  |  |
| Cash on hand or on deposit | **1,742** |  | 2,596 |
| Cash held in the OPA - special accounts | **4,089** |  | 3,536 |
| **Total cash and cash equivalents** | **5,831** |  | 6,132 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note B1.2: Trade and other receivables** |  |  |  |
| **Goods and services receivable** |  |  |  |
| Goods and services | **1,893** |  | 7,697 |
| **Total goods and services receivable** | **1,893** |  | 7,697 |
|  |  |  |  |
| **Appropriations receivable** |  |  |  |
| Operating annual appropriations1 | **53,060** |  | 56,132 |
| Operating annual appropriations - departmental capital budget2 | **3,552** |  | 6,836 |
| Equity injections | **6,716** |  | 9,867 |
| **Total appropriations receivable** | **63,328** |  | 72,835 |
|  |  |  |  |
| **Other receivables** |  |  |  |
| GST receivable from the Australian Taxation Office | **1,361** |  | 3,647 |
| **Total other receivables** | **1,361** |  | 3,647 |
| **Total trade and other receivables (gross)** | **66,582** |  | 84,179 |
|  |  |  |  |
| **Less impairment allowance** |  |  |  |
| Goods and services receivable | **(316)** |  | (98) |
| **Total impairment allowance** | **(316)** |  | (98) |
| **Total trade and other receivables (net)** | **66,266** |  | 84,081 |

Credit terms for goods and services receivable are net 30 days (2016: 30 days).

Financial assets are assessed for impairment at the end of each reporting period.

1A transaction for services from another government agency was incorrectly recorded in 2014-15 and supplier expense of $0.7 million was not brought to account, rather an offsetting appropriation payable and appropriation receivable was reported. This resulted in an overstatement of the 2016 appropriation receivable and equity balances by $0.7 million. The prior year figures have been restated accordingly.

2In 2015-16 the department recognised $22.2 million of departmental capital budget funding. The actual funding provided in *Appropriation Act (No.3) 2015-16* was $21.7 million. The $0.5 million difference reflects the appropriation of funds directly to the Department of Employment rather than via the Department of Education and Training. Accordingly, the 2016 appropriation receivable (operating annual appropriations – departmental capital budget) and contributed equity figures have been reduced by $0.5 million.

|  |  |  |  |
| --- | --- | --- | --- |
| **Movements in impairment allowance** |  |  |  |
|  | **Goods and services** |  | Goods and services |
|  | **2017** |  | 2016 |
|  | **$'000** |  | $'000 |
| **Opening balance as at 1 July** | **(98)** |  | - |
| Amounts written off against the provision | **98** |  | - |
| Amounts recovered and reversed | **-** |  | - |
| Increase recognised in operating result | **(316)** |  | (98) |
| **Closing balance as at 30 June** | **(316)** |  | (98) |
|  |  |  |  |

* 1. Non-Financial Assets

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Note B2.1: Reconciliation of the opening and closing balances of property, infrastructure, plant and equipment and computer software** | | | | | |
|  |  |  |  |  |  |
|  | **Land and buildings** | |  |  |  |
|  | **Land and buildings** | **Leasehold improvements** | **Infrastructure, plant and equipment** | **Computer software** | **Total** |
|  | **$’000** | **$’000** | **$’000** | **$’000** | **$’000** |
| **As at 1 July 2016** |  |  |  |  |  |
| Gross book value | 400 | 36,749 | 12,743 | 112,840 | 162,732 |
| Accumulated depreciation, impairment and amortisation | - | (12) | (84) | (37,251) | (37,347) |
| **Total as at 1 July 2016** | **400** | **36,737** | **12,659** | **75,589** | **125,385** |
| Additions |  |  |  |  |  |
| By purchase | **-** | **2,779** | **245** | **-** | **3,024** |
| By development | **-** | **-** | **-** | **16,004** | **16,004** |
| Revaluations in other comprehensive   income | **-** | **976** | **-** | **-** | **976** |
| Impairment recognised in net cost of |  |  |  |  |  |
| services | **-** | **-** | **-** | **(163)** | **(163)** |
| Depreciation and amortisation | **(9)** | **(4,565)** | **(1,606)** | **(17,799)** | **(23,979)** |
| Restructuring | **-** | **(524)** | **(10,184)** | **(13,100)** | **(23,808)** |
| Disposals | **-** | **-** | **(6)** | **-** | **(6)** |
| Write-down | **-** | **(10)** | **(3)** | **-** | **(13)** |
| **Total as at 30 June 2017** | **391** | **35,393** | **1,105** | **60,531** | **97,420** |
|  |  |  |  |  |  |
| **Total as at 30 June 2017 represented by** |  |  |  |  |  |
| Gross book value | **400** | **35,393** | **1,426** | **104,546** | **141,765** |
| Accumulated depreciation, impairment and amortisation | **(9)** | **-** | **(321)** | **(44,015)** | **(44,345)** |
| **Total as at 30 June 2017** | **391** | **35,393** | **1,105** | **60,531** | **97,420** |

Purchases of non-financial assets are recognised initially at cost in the statement of financial position, except for purchases costing less than $2,000 (or $50,000 for leasehold improvements or $200,000 for computer software) which are expensed in the year of acquisition other than where they form part of a group of similar items which are significant in total.

Assets acquired at no cost or for nominal consideration are initially recognised as assets and income at their fair value at the date of acquisition unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor’s accounts immediately prior to the restructuring.

The asset thresholds and useful lives for each asset class remain unchanged from 2016.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Asset class** | **2017 Useful life** | **2017 Threshold** |  |
|  | Buildings on freehold land | 37-51 years | nil |  |
|  | Buildings - leasehold improvements | Lease term | $50,000 |  |
|  | Infrastructure, plant and equipment | 3-25 years | $2,000 |  |
|  | Computer software | 2-15 years | $200,000 |  |

Unless otherwise stated, depreciation and amortisation rates are applied on a straight-line basis and rates are reviewed annually, as are useful lives and residual values. Any necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

All non-financial assets are assessed annually for indications of impairment and, where appropriate, the asset’s carrying value is adjusted to fair value.

**Land, buildings and leasehold improvements**

There are no (2016: three) leased properties that the department manages which are due to expire within the next 12 months that have leasehold improvement assets. No indicators of impairment were found for land, buildings and leasehold improvements.

**Infrastructure, plant and equipment**

No material amounts of infrastructure, plant and equipment are expected to be sold or disposed of within the next 12 months. No indicators of impairment were found for infrastructure, plant and equipment assets.

**Computer software**

The department’s computer software comprises purchased and internally developed software for internal use. No material amounts of computer software are expected to be sold or disposed of within the next 12 months.

All computer software assets are assessed for indications of impairment at the end of each reporting period. An impairment loss of $0.2 million was recognised for computer software in 2017 (2016: $2.5 million).

**Revaluations of non-financial assets**

Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets’ fair values as at the reporting date. Revaluations are conducted by an independent valuer. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Australian Valuation Solutions undertook a fair value revaluation in 2015-16 for all non-financial assets except for computer software. Leasehold improvement assets were revalued downwards and a decrement of $1.2 million was incorrectly recognised against the asset revaluation reserve rather than expense. This has been adjusted in the comparative figures to recognise $1.2 million as a write-down of assets expense and reinstate the asset revaluation reserve. Note A1.3 refers.

In 2016-17 Australian Valuation Solutions undertook a valuation of non-financial assets except for computer software. This resulted in a revaluation increment to leasehold improvement assets of $1.0 million (2016: $1.2 million decrement). Note A2.4 refers. No material differences were identified between the carrying amounts and fair values for infrastructure, plant and equipment assets.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Capital commitments payable (including GST)** | | | | | | |
|  | | | | | | |
|  | **<1 year** | **Between 1-5 years** | **Total** | <1 year | Between 1-5 years | Total |
|  | **2017** | **2017** | **2017** | 2016 | 2016 | 2016 |
|  | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 |
| Leasehold improvements | **111** | **-** | **111** | 371 | - | 371 |
| Computer software | **-** | **-** | **-** | 6,539 | - | 6,539 |
| **Total** | **111** | **-** | **111** | 6,910 | - | 6,910 |

* 1. Payables

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note B3.1: Supplier** | **$'000** |  | $'000 |
|  |  |  |  |
| Trade creditors and accruals | **27,440** |  | 27,100 |
| Operating lease rentals | **2,237** |  | 4,563 |
| **Total suppliers** | **29,677** |  | 31,663 |

Settlement is usually due within 30 days. All suppliers are expected to be settled within 12 months.

|  |  |  |  |
| --- | --- | --- | --- |
| **Note B3.2: Other payables** |  |  |  |
|  |  |  |  |
| Lease incentives | **11,062** |  | 12,565 |
| Separations and redundancies | **3,796** |  | 385 |
| Wages and salaries | **1,993** |  | 1,340 |
| Unearned income | **834** |  | 5,366 |
| Superannuation | **246** |  | 131 |
| Other employee benefits | **306** |  | 542 |
| **Total other payables** | **18,237** |  | 20,329 |

Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

Lease incentives taking the form of ‘free’ leasehold improvements and rent free holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability over the term of the lease.

* 1. Provisions

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note B4.1: Employee provisions** | **$'000** |  | $'000 |
|  |  |  |  |
| Annual and long service leave provisions1 | **66,531** |  | 73,150 |
| **Total employee provisions** | **66,531** |  | 73,150 |

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the department is estimated to be less than the annual entitlement for sick leave.

The liability for annual and long service leave has been determined by reference to work conducted by the Australian Government Actuary as at 30 June 2017. As required by AASB 119 *Employee Benefits*, the estimate of future cash outflows takes into account estimated attrition, probability factors, future salary rates and ancillary costs. Liabilities for short-term employee benefits expected to be paid within 12 months of the end of reporting period are measured at the one year Commonwealth government bond rate of 1.5 per cent (2016: 1.5 per cent). Liabilities for long term employee benefits are discounted using the 10 year Commonwealth government bond rate of 2.5 per cent (2016: 2.0 per cent).

Provision is made for separation and redundancy benefits when the department has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Staff of the department are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) or other elected defined contribution schemes.

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance’s administered financial statements.

The department makes employer contributions to defined benefit superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government. The department accounts for the contributions as if they were contributions to defined contribution plans.

The payable for superannuation recognised at 30 June represents outstanding contributions owed by the department to the superannuation schemes. Note B3.2 refers.

1The long service liability recognised at 30 June 2016 did not take into account probability or ancillary rates when estimating future cash outflows*.* Accordingly the comparative employee expense and 2016 employee provision have been increased by $2.0 million.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Note B4.2: Other provisions** | | | | | |
|  |  |  |  |  |  |
|  | **Provision for legal obligations** | **Provision for restoration obligations** | **Provision for surplus lease space** | **Provision for onerous contract** | **Total other provisions** |
|  | **$’000** | **$’000** | **$’000** | **$’000** | **$’000** |
| **As at 1 July 2016** | **541** | **500** | **202** | **496** | **1,739** |
| Additional provisions made | - | - | - | - | - |
| Amounts reversed | (241) | (260) | - | - | (501) |
| Amounts used | (300) | (240) | (84) | (429) | (1,053) |
| Other movements | - | - | (118) | 465 | 347 |
| **Total as at 30 June 2017** | **-** | **-** | **-** | **532** | **532** |

The department currently has one (2016: one) onerous contract for office accommodation with an expiry date of 31 March 2018. Sublease arrangements were put in place in April 2016.

* 1. Administered – Financial Assets

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note B5.1: Cash and cash equivalents** | **$'000** |  | $'000 |
|  |  |  |  |
| Cash held in the OPA - special accounts | **85,478** |  | 72,092 |
| **Total cash and cash equivalents** | **85,478** |  | 72,092 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note B5.2: Receivables** |  |  |  |
|  |  |  |  |
| **Goods and services receivable** |  |  |  |
| Goods and services receivable | **198,618** |  | 48,482 |
| **Total goods and services receivable** | **198,618** |  | 48,482 |
|  |  |  |  |
| **Advances and loans** |  |  |  |
| Higher education loans | **35,916,286** |  | 36,807,652 |
| Trade support loans | **282,520** |  | 145,680 |
| Child care loans | **145** |  | 591 |
| **Total advances and loans** | **36,198,951** |  | 36,953,923 |
|  |  |  |  |
| **Other receivables** |  |  |  |
| GST receivable from the Australian Taxation Office | **18,435** |  | 39,821 |
| Higher education superannuation receivable | **372,000** |  | 392,000 |
| Personal benefits receivable | **434,206** |  | 465,440 |
| **Total other receivables** | **824,641** |  | 897,261 |
| **Total receivables (gross)** | **37,222,210** |  | 37,899,666 |
|  |  |  |  |
| **Less impairment allowance** |  |  |  |
| Goods and services receivable | **(78,491)** |  | (11,557) |
| Personal benefits receivable | **(20,944)** |  | (17,709) |
| **Total impairment allowance** | **(99,435)** |  | (29,266) |
| **Total receivables (net)** | **37,122,775** |  | 37,870,400 |
|  |  |  |  |
| Goods and services receivable are with entities external to the Australian Government. Credit terms are payment within 30 days (2016: 30 days). | | | |
|  |  |  |  |
| **Movements in impairment allowance** |  |  |  |
|  | **Receivables** |  | Receivables |
|  | **2017** |  | 2016 |
|  | **$'000** |  | $'000 |
| **Opening balance as at 1 July** | **(29,266)** |  | (7,523) |
| Amounts written off against the provision | **2,964** |  | - |
| Amounts recovered and reversed | **563** |  | - |
| Reversal of previous impairment | **112** |  | - |
| Amounts transferred through restructuring | **-** |  | (19,790) |
| Increase recognised in net cost of services | **(73,808)** |  | (1,953) |
| **Closing balance as at 30 June** | **(99,435)** |  | (29,266) |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | **2016** |
| **Concessional loans** | **$'000** |  | **$'000** |
| **Higher education loans** | | | |
| Nominal value | **55,424,526** |  | 50,432,490 |
| Unexpired discount | **(1,019,462)** |  | 874,555 |
| Impairment | **(18,488,778)** |  | (14,499,393) |
| Carrying amount | **35,916,286** |  | 36,807,652 |
| **Trade support loans** |  |  |  |
| Nominal value | **363,052** |  | 196,037 |
| Unexpired discount and discount on completion (new loans) | **(38,386)** |  | (33,117) |
| Impairment | **(42,146)** |  | (17,242) |
| Principal repayment | **-** |  | 2 |
| Carrying amount | **282,520** |  | 145,680 |
| **Child care loans** |  |  |  |
| Nominal value | **145** |  | 252 |
| Restructure | **-** |  | 339 |
| Carrying amount | **145** |  | 591 |
| **Total concessional loans** | **36,198,951** |  | 36,953,923 |
|  |  |  |  |

The Australian Government Actuary assesses the fair value of the higher education loans and trade support loans at the end of each reporting period. Further information is provided in the overview.

|  |  |  |  |
| --- | --- | --- | --- |
| **Note B5.3: Investments** |  |  |  |
|  |  |  |  |
| Australian Institute for Teaching and School Leadership | **4,695** |  | 4,693 |
| Australian Curriculum, Assessment and Reporting Authority | **1,792** |  | 643 |
| Australian National University | **2,295,141** |  | 2,076,100 |
| Australian Institute of Aboriginal and Torres Strait Islander Studies | **36,756** |  | 36,901 |
| **Total other investments** | **2,338,384** |  | 2,118,337 |
|  |  |  |  |

The department retains 100 per cent ownership in each of the investments.

Administered investments are measured at their fair value as at 30 June. Fair value has been taken to be the Australian Government's proportional interest in the net assets of the entities.

Movements between years are recognised at fair value through other comprehensive income. In 2016-17 the increase was $220.1 million (2015-16: decrease $31.6 million).

* 1. Administered – Payables

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **Note B6.1: Trade creditors and accruals** |  |  |  |
|  |  |  |  |

Settlement is usually due within 30 days. All suppliers are expected to be settled within 12 months.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note B6.2: Grants** | **$'000** |  | $'000 |
|  |  |  |  |
| **Public sector** |  |  |  |
| State and Territory Governments | **4,936** |  | - |
| **Private sector** |  |  |  |
| Non-profit organisations | **251** |  | 481 |
| Other | **8,557** |  | 2,837 |
| **Total grants** | **13,744** |  | 3,318 |
|  |  |  |  |

Settlement is usually within 30 days of performance or eligibility according to the conditions of each grant.

* 1. Administered – Provisions

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Note B7.1: Personal benefits and higher education superannuation provisions** | | | | |
|  |  |  |  |  |
|  | **Provisions for HESP** | Provisions for HESP | **Provisions for personal benefits** | Provisions for personal benefits |
|  | **2017** | 2016 | **2017** | 2016 |
|  | **$'000** | $'000 | **$'000** | $'000 |
| **Opening balance as at 1 July** | **6,959,011** | 6,068,013 | **872,819** | - |
| Additional provisions made | **-** | - | **-** | 126,042 |
| Amounts used | **(289,443)** | (211,363) | **(757,075)** | - |
| Increase (decrease) recognised in net cost   of services | **(202,568)** | 1,102,361 | **863,695** | - |
| Restructuring | **-** | - | **-** | 746,777 |
| **Total as at 30 June** | **6,467,000** | 6,959,011 | **979,439** | 872,819 |

*Higher education superannuation program*

As at 30 June 2017, the Australian Government Actuary estimated the present value of the Commonwealth’s total superannuation liability in respect of current and former university employees who are members of State superannuation schemes. The present value of the liability was estimated using an interest rate of 3.0 per cent (2016: 2.7 per cent) based upon the 2033 Government bond rate. The actuary estimated that approximately $0.4 billion (2016: $0.4 billion) is recoverable from the States. Note B5.2 refers. A fair value gain of $0.4 billion is reported at note A4.3 (2015-16: $0.8 billion fair value loss). Note A3.6 refers.

Prior to the establishment of the Superannuation Scheme for Australian Universities in 1983, university employees belonged to various unfunded or partly funded institution and/or State based superannuation schemes. The State based schemes have been closed to new members, but university employees have been able to continue as members.

Historically, the responsibility for funding universities’ superannuation liabilities has been shared between the Commonwealth and the States, apart from the period between 1974 and 1982, when the Commonwealth bore the full cost of benefits. The current cost share arrangements are based on allocating the emerging cost of benefits between the States and the Commonwealth based on the split of responsibility at the time the benefits accrued.

The HESP provision is based upon: the total value of the superannuation liabilities for universities in Victoria, South Australia, Western Australia and Tasmania; and 78 per cent of the total value of the superannuation liabilities for universities in NSW (reflecting the partially funded nature of the NSW schemes).

*Personal benefits*

The department administers a number of personal benefit programs on behalf of the government that provide entitlements to individuals. Payments are determined in accordance with provisions under social security law and other legislation.

The department made payments in accordance with family assistance law (comprising the *A New Tax System (Family Assistance) Act 1999* and *A New Tax System (Family Assistance) (Administration) Act 1999* as well as associated legislation and other subordinate legislation. Responsibility for these payments transferred from the Department of Social Services to the Department of Education and Training as a result of the Administrative Arrangement Order of 21 September 2015. These payments are assessed and determined by officers of the Department of Human Services under delegation from the department.

The *A New Tax System (Family Assistance) (Administration) Act 1999* imposes an obligation on recipients and customers to disclose information about financial and personal circumstances that affect entitlement to payment.

Unreported changes in circumstances can lead to incorrect payment, even if no deliberate fraud is intended. The compliance framework does not rely solely on information provided by recipients and customers to determine their entitlement. A comprehensive risk management strategy minimises the potential for incorrect payment by subjecting recipients and customers to a variety of review processes. While the risk management strategy is principally directed at minimising debts, the detection of underpayments will also result in an adjustment.

The child care payments compliance program takes a risk and evidence-based, whole-of-government approach focused on disrupting the business practices of services at highest risk of non-compliance and fraud. Compliance operations have been strengthened through greater investment in compliance resources, improved data interrogation and analysis capacity to better target compliance activities, and stronger collaboration with other Australian Government entities. To further tighten existing family assistance law a range of legislative instruments has been introduced in advance of the commencement of the *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2017* on 2 July 2018.

1. Funding
   1. Appropriations

|  |  |  |
| --- | --- | --- |
| **Note C1.1: Annual appropriations ('recoverable GST exclusive')** | | |
|  | **2017** | 2016 |
|  | **$'000** | $'000 |
| **Departmental ordinary annual services** |  |  |
| Annual appropriation |  |  |
| Operating1 | **333,539** | 254,837 |
| Departmental capital budget2 | **23,281** | 21,677 |
| PGPA Act section 74 receipts | **17,241** | 30,665 |
| PGPA Act section 75 transfers | **(14,390)** | 44,904 |
| **Total appropriation** | **359,671** | 352,083 |
| Appropriation applied (current and prior years) | **361,586** | 368,263 |
| **Variance3** | **(1,915)** | (16,180) |
|  |  |  |
| **Departmental other services** |  |  |
| Annual appropriation |  |  |
| Equity injection | **5,985** | 10,438 |
| PGPA Act section 75 transfers | **-** | 3,248 |
| **Total appropriation** | **5,985** | 13,686 |
| Appropriation applied (current and prior years) | **9,135** | 8,023 |
| **Variance4** | **(3,150)** | 5,663 |

|  |  |  |
| --- | --- | --- |
| **Administered ordinary annual services** |  |  |
| Annual appropriation |  |  |
| Operating | **1,879,988** | 1,548,526 |
| Payments to corporate Commonwealth entities | **19,817** | 14,935 |
| PGPA Act section 75 transfers | **-** | 303,735 |
| **Total appropriation** | **1,899,805** | 1,867,196 |
| Appropriation applied (current and prior years) | **1,603,460** | 1,422,260 |
| **Variance** | **296,345** | 444,936 |
|  |  |  |
| **Administered other services** |  |  |
| Annual appropriation |  |  |
| States, ACT, NT and local government | **42,686** | 43,645 |
| Payments to corporate Commonwealth entities | **74** | 74 |
| **Total appropriation** | **42,760** | 43,719 |
| Appropriation applied (current and prior years) | **41,241** | 44,511 |
| **Variance** | **1,519** | (792) |
|  |  |  |

1. No amounts have been quarantined in 2016-17.

2. Departmental capital budgets are appropriated through *Appropriation Acts (No. 1,3,5).* They form part of ordinary annual services and are not separately identified in the Appropriation Acts. The departmental capital budget for 2016 has been adjusted to reflect the legally available appropriation of $21.7 million. Note B1.2 refers.

3. The variance reflects the movement in cash at bank, appropriations receivable, GST receivable, and $7.5 million in section 75 transfers of prior year appropriation.

4. The variance reflects the movements in the appropriation receivable - equity injection.

|  |  |  |
| --- | --- | --- |
| **Note C1.2: Unspent annual appropriations ('recoverable GST exclusive')** | | |
|  | **2017** | 2016 |
| **$'000** | $'000 |
| **Departmental** |  |  |
|  |  |
| *Appropriation Act (No.1) 2016-17* | **35,886** | - |
| *Appropriation Act (No.2) 2016-17* | **2,365** | - |
| *Appropriation Act (No.3) 2016-17* | **14,484** | - |
| *Appropriation Act (No.4) 2016-17* | **2,992** | - |
| *Appropriation Act (No. 1) 2016-17 Capital Budget - Non Operating* | **2,538** | - |
| *Supply Act (No. 1) 2016-17 Capital Budget - Non Operating* | **1,014** | - |
| *Supply Act (No.2) 2016-17* | **468** | - |
| *Appropriation Act (No.1) 2015-16* | **2,622** | 35,506 |
| *Appropriation Act (No.2) 2015-16* | **-** | 7,109 |
| *Appropriation Act (No.3) 2015-16* | **-** | 4,567 |
| *Appropriation Act (No.4) 2015-16* | **891** | 1,973 |
| *Appropriation Act (No.1) 2014-15* | **-** | 22,827 |
| *Appropriation Act (No.2) 2013-14* | **-** | 784 |
| *Appropriation Act (No.1) 2013-14* | **68** | - |
| Cash at bank | **1,742** | 2,596 |
| **Total departmental1** | **65,070** | 75,362 |
|  |  |  |
| **Administered** |  |  |
| *Appropriation Act (No. 1) 2016-172* | **374,894** | - |
| *Appropriation Act (No. 2) Specific Purpose Payments 2016-17* | **1,519** | - |
| *Appropriation Act (No.1) 2015-163* | **543,924** | 622,470 |
| *Appropriation Act (No.2) Specific Purpose Payments 2015-164* | **3,243** | 3,243 |
| *Appropriation Act (No.1) 2014-155* | **268,354** | 268,354 |
| *Appropriation Act (No.3) 2014-156* | **14,836** | 14,836 |
| *Appropriation Act (No.2) Specific Purpose Payments 2014-157* | **2,257** | 2,257 |
| *Appropriation Act (No.1) 2013-14*8 | **110** | 110 |
| *Appropriation Act (No.3) 2013-14*9 | **8,144** | 8,144 |
| **Total administered** | **1,217,281** | 919,414 |
|  |  |  |

1. As at 30 June 2017, total departmental unspent annual appropriation comprises: cash at bank (excluding special account) $1.7 million and appropriation receivable $63.3 million.

2. Includes $10.8 million of permanent quarantines that are still legally available.

3.The balance represents permanent quarantines that are still legally available. The 2015-16 amount has increased from $262.4 million to $622.5 million to include quarantined funds that were still legally available at 30 June 2016.

4. The balance includes $3.2 million of permanent quarantines that are legally available.

5. The balance is legally available until the date of repeal, 1 July 2017. The 2015-16 amount has increased from $259.2 million to $268.4 million to include quarantined funds that were still legally available at 30 June 2016.

6. The funds are legally available until the date of repeal, 1 July 2017.

7. The balance includes $0.8 million of quarantine funds that are still legally available. The 2015-16 amount has increased from $1.4 million to $2.3 million to include quarantined funds that were still legally available at 30 June 2016.

8. The balance has been quarantined but is still available until the date of repeal. The 2015-16 amount has increased from nil to $0.1 million to include quarantined funds that were still legally available at 30 June 2016.

9. The balance has been quarantined but is still available until the date of repeal. The 2015-16 amount has increased from nil to $8.1 million to include quarantined funds that were still legally available at 30 June 2016.

|  |  |  |
| --- | --- | --- |
| **Note C1.3: Special appropriations ('recoverable GST exclusive')** | | |
| **Authority** | **Appropriation applied** | |
| **2017** | 2016 |
| **$'000** | $'000 |
| *A New Tax System (Family Assistance) (Administration) Act 1999* | **7,201,756** | 5,023,245 |
| *Australian Education Act 2013* | **17,039,994** | 15,669,315 |
| *Higher Education Support Act 2003,* section 238-12 | **16,324,974** | 17,629,196 |
| *Trade Support Loans Act 2014,* section 104 | **173,175** | 144,676 |
| *VET Student Loans Act 2016,* section11 | **40,688** | - |
| **Total special appropriations applied** | **40,780,587** | 38,466,432 |
|  |  |  |

|  |  |  |
| --- | --- | --- |
| **Note C1.4: Disclosure by agent in relation to annual and special appropriations ('recoverable GST exclusive')** | | |
|  | | |
|  |  |  |
|  | **Department of Foreign Affairs and Trade1** | |
|  |  |  |
| Total receipts | **26,472** | 24,988 |
| Total payments | **26,472** | 24,988 |

1. The department had drawing rights for the Department of Foreign Affairs and Trade annual appropriation for the New Colombo Plan program.

* 1. Special Accounts

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Note C2.1: Special accounts ('recoverable GST exclusive')** | | | | |
|  |  |  |  |  |
|  | **Education Investment Fund - Research Portfolio Special Account1** | | **Education Investment Fund - Education Portfolio Special Account2** | |
|  | **2017** | 2016 | **2017** | 2016 |
|  | **$'000** | $'000 | **$'000** | $'000 |
| **Balance brought forward from previous period** | **-** | - | **-** | - |
| **Increases** |  |  |  |  |
| Appropriation credited to special account | **-** | - | **22,593** | 55,754 |
| **Total increases** | **-** | - | **22,593** | 55,754 |
| **Available for payments** | **-** | - | **22,593** | 55,754 |
| **Decreases** |  |  |  |  |
| Payments made | **-** | - | **(22,593)** | (55,754) |
| **Total decreases** | **-** | - | **(22,593)** | (55,754) |
| **Balance carried forward to the next period** | **-** | - | **-** | - |
| **Balance represented by** |  |  |  |  |
| Cash held in the OPA | **-** | - | **-** | - |
| **Balance carried forward to the next period** | **-** | **-** | **-** | **-** |

1 Education Investment Fund - Research Portfolio Special Account

Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

Establishing Instrument: *Nation-building Funds Act 2008* No. 154 of 2008.

Purpose: To make grants of financial assistance in relation to the creation and development of research infrastructure.

There have been no transactions through this special account in 2016-17 or the prior year.

2 Education Investment Fund - Education Portfolio Special Account

Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

Establishing Instrument: *Nation-building Funds Act 2008* No. 154 of 2008.

Purpose: To make grants of financial assistance to eligible higher education institutions in relation to capital expenditure and research facilities.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **National Youth Affairs Research Scheme Special Account3** | | **Growth Fund Skills and Training Special Account4** | |
|  | **2017** | 2016 | **2017** | 2016 |
|  | **$'000** | $'000 | **$'000** | $'000 |
| **Balance brought forward from previous period** | **-** | 171 | **4,757** | - |
| **Increases** |  |  |  |  |
| Appropriation credited to special account | **-** | - | **2,091** | 147 |
| Receipts | **-** | - | **15,150** | 4,757 |
| **Total increases** | **-** | - | **17,241** | 4,904 |
| **Available for payments** | **-** | 171 | **21,998** | 4,904 |
| **Decreases** |  |  |  |  |
| Payments made | **-** | (171) | **(5,985)** | (147) |
| **Total decreases** | **-** | (171) | **(5,985)** | (147) |
| **Balance carried forward to the next period** | **-** | - | **16,013** | 4,757 |
| **Balance represented by** |  |  |  |  |
| Cash held in the OPA | **-** | - | **16,013** | 4,757 |
| **Balance carried forward to the next period** | **-** | - | **16,013** | 4,757 |

3 National Youth Affairs Scheme Special Account

Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 78.

Establishing Instrument: Financial Management and Accountability Determination 2006/45 dated 17 August 2006.

Purpose: For the receipt of monies from State Governments to meet expenditure in respect of the National Youth Affairs Research Scheme. This special account was repealed on 1 October 2016.

4 Growth Fund Skills and Training Special Account

Appropriation: *Public Governance, Performance and Accountability Act 20,* section 78.

Establishing Instrument: Growth Fund Skills and Training Special Account 2015 - Establishment Determination 2015/04 dated 15 July 2015.

Purpose: For paying amounts to enable Australian workers and former workers in the Australian automotive industry to obtain career advice, education, training and re-skilling support to exit the industry and obtain new forms of employment.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Early Years Quality Fund Special Account5** | | **Overseas Student Tuition Fund Special Account6** | |
|  | **2017** | 2016 | **2017** | 2016 |
|  | **$'000** | $'000 | **$'000** | $'000 |
| **Balance brought forward from previous period** | **34,039** | - | **28,167** | 19,869 |
| **Increases** |  |  |  |  |
| Receipts | **854** | 598 | **9,756** | 10,126 |
| **Total increases** | **854** | 598 | **9,756** | 10,126 |
| **Available for payments** | **34,893** | 598 | **37,923** | 29,995 |
| **Decreases** |  |  |  |  |
| Payments made | **(2,269)** | (68,607) | **(3,344)** | (1,828) |
| Transfer through restructuring | **-** | 102,048 | **-** | - |
| **Total decreases** | **(2,269)** | 33,441 | **(3,344)** | (1,828) |
| **Balance carried forward to the next period** | **32,624** | 34,039 | **34,579** | 28,167 |
| **Balance represented by** |  |  |  |  |
| Cash held in the OPA | **32,624** | 34,039 | **34,579** | 28,167 |
| **Balance carried forward to the next period** | **32,624** | 34,039 | **34,579** | 28,167 |

5 Early Years Quality Fund Special Account

Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

Establishing Instrument: *Early Years Quality Fund Special Account Act 2013.*

Purpose*:* To provide funding to approved centre based long day care services to be used exclusively for paying remuneration and other employment-related costs and expenses in relation to employees in the early childhood education and care sector.

6 Overseas Student Tuition Fund Special Account

Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

Establishing Instrument: *Education Services for Overseas Students Act 2000* Act No. 164 of 2000, taking into account amendments to *Education Services for Overseas Students Legislation Amendment (Tuition Protection Services and Other Measures) Act 2012*, section 52A.

Purpose*:* For expenditure in connection with assisting international students whose education providers are unable to deliver their course of study in full.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Services for Other Entities and Trust Moneys7** | | **Unique Student Identifier8** | |
|  | **2017** | 2016 | **2017** | 2016 |
|  | **$'000** | $'000 | **$'000** | $'000 |
| **Balance brought forward from previous period** | **5,125** | 6,476 | **3,536** | 2,286 |
| **Increases** |  |  |  |  |
| Appropriations credited to special account | **-** | - | **6,250** | 9,696 |
| Receipts | **1,570** | 1,154 | **-** | - |
| **Total increases** | **1,570** | 1,154 | **6,250** | 9,696 |
| **Available for payments** | **6,695** | 7,630 | **9,786** | 11,982 |
| **Decreases** |  |  |  |  |
| Payments made | **(4,435)** | (2,527) | **(5,697)** | (8,446) |
| Transfer through restructuring | **-** | 22 | **-** | - |
| **Total decreases** | **(4,435)** | (2,505) | **(5,697)** | (8,446) |
| **Balance carried forward to the next period** | **2,260** | 5,125 | **4,089** | 3,536 |
| **Balance represented by** |  |  |  |  |
| Cash held in the OPA | **2,260** | 5,125 | **4,089** | 3,536 |
| **Balance carried forward to the next period** | **2,260** | 5,125 | **4,089** | 3,536 |

7 Services for Other Entities and Trust Moneys Special Account

Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 78.

Establishing Instrument: Financial Management and Accountability Determination 2008/14 dated 3 June 2008.

Purpose*:* To disburse amounts held on trust or otherwise for the benefit of a person other than the Commonwealth; in connection with services performed on behalf of other governments and bodies that are not non-corporate Commonwealth entities; and to repay amounts where an Act or other law requires or permits the repayment of an amount received.

8Unique Student Identifier Special Account

Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

Establishing Instrument: *Student Identifiers Act 2014;* section 48.

Purpose: For paying or discharging the costs, expenses and other obligations incurred by the Commonwealth in the performance of the Registrar’s functions, paying any remuneration and allowances payable to any person under the Act and meeting the expenses of administering the account.

.

* 1. Regulatory Charging

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note C3.1: Regulatory charging summary** | **$'000** |  | $'000 |
|  |  |  |  |
| **Amounts applied** |  |  |  |
| Departmental - annual appropriation | **5,307** |  | 5,766 |
| **Total amounts applied1** | **5,307** |  | 5,766 |
|  |  |  |  |
| **Expenses** |  |  |  |
| Departmental | **6,938** |  | 7,102 |
| Administered | **1,327** |  | 996 |
| **Total expenses1** | **8,265** |  | 8,098 |
|  |  |  |  |
| **External revenue** |  |  |  |
| Departmental | **1,631** |  | 1,336 |
| Administered | **11,552** |  | 9,457 |
| **Total revenue1** | **13,183** |  | 10,793 |
|  |  |  |  |
|  |  |  |  |

The Commonwealth recovers the costs of administering its functions under the *Education Services for* *Overseas Students Act 2000* (the ESOS Act) and the National Code of Practice for Providers of Education and Training to Overseas Students (National Code) through compulsory registration fees charged to providers wishing to be registered on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS), which allows them to offer courses to overseas students. The Commonwealth also recovers the cost of administering the functions of the Overseas Students Ombudsman under the *Ombudsman Act 1976.*

The following entities are involved in the delivery of these activities: Department of Education and Training, Australian Skills Quality Authority and the Tertiary Education Quality and Standards Agency.

Further information on CRICOS is available at https://internationaleducation.gov.au.

The Commonwealth also recovers the costs for administering certain programs through Trades Recognition Australia (TRA). TRA is the only authorised assessing authority for trade occupations under the *Migration Act 1958* and manages skills assessment services for people with trade skills who are Australian citizens, residents (both temporary and permanent) and potential migrants to Australia. A person who requires a skills assessment for migration purposes in a trade occupation is required to use TRA’s services. The Australian Recognised Trade Certificate Program, the Job Ready Program, the Migration Skills Assessment Program and the Migration Points Advice Program operate on a cost recovery basis through charging of assessment fees.

Further information on TRA is available at [www.tradesrecognitionaustralia.gov.au](http://www.tradesrecognitionaustralia.gov.au).

1The 2015-16 comparatives have been amended to include the Trades Recognition Australia program that was inadvertently omitted from the 2015-16 financial statements and exclude the CRICOS expenses incurred by the Overseas Student Ombudsman as these are not expenses of the department. The net impact of these adjustments on the 2015-16 amounts is to: increase departmental appropriation by $1.2 million; increase departmental expenses by $2.6 million; increase administered expenses by $1.0 million; increase departmental external revenue by $1.3 million and external administered revenue by $1.5 million.

* 1. Net Cash Appropriation Arrangements

|  |  |  |  |
| --- | --- | --- | --- |
| **Total comprehensive surplus less depreciation and amortisation expenses previously funded through revenue appropriations** | **2,968** |  | 1,757 |
| Less: depreciation and amortisation expense | **(23,979)** |  | (25,168) |
| **Total comprehensive loss as per the statement of comprehensive income** | **(21,011)** |  | (23,411) |

1. Other Items
   1. Contingent Assets and Liabilities

|  |
| --- |
| **Note D1.1: Departmental contingent assets and liabilities** |

Contingent liabilities and contingent assets are not recognised in the statement of financial position. They may arise from uncertainty as to the existence of a liability or asset or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

*Quantifiable contingencies*

The department had no quantifiable contingent assets or liabilities as at 30 June 2017 (2016: two).

*Unquantifiable contingencies*

As at 30 June 2017, the department had contingent assets and liabilities likely to be paid in respect of damages and claims that are not quantifiable. There were three open matters (2016: three) in the hands of the department’s legal representatives. These open matters relate to a range of legal issues with varying probabilities of success. It is not possible to estimate the amounts of any eventual receipts or payments that may be received or made in relation to these claims.

**Note D1.2: Administered contingent assets and liabilities**

*Quantifiable contingencies*

There were no administered quantifiable contingent assets or liabilities as at 30 June 2017 (2016: nil).

*Unquantifiable contingencies*

The Government is undertaking compliance action to recover VET FEE-HELP payments from VET providers where loans were inappropriately issued to students by providers. There is a potential financial risk to the Commonwealth in the event that compliance action results in student loan debts being remitted but the Commonwealth is unable to recover the payments from providers.

* 1. Restructuring

|  |  |  |  |
| --- | --- | --- | --- |
| **Note D2.1: Departmental restructuring** | | | |
|  | **2017** | | 2016 |
| **Function** | **Shared Services** | **Shared Services** | Early Childhood and Child Care |
| **Entity** | **Department of Employment1** | **Department of Finance1** | Department of Social Services2 |
|  | **$'000** | **$'000** | $'000 |
| **FUNCTIONS ASSUMED** |  |  |  |
| **Assets recognised** |  |  |  |
| Trade and other receivables | **751** | **-** | 16,060 |
| Land and buildings | **246** | **-** | 646 |
| Infrastructure, plant and equipment | **445** | **-** | 40 |
| Computer software | **418** | **-** | 949 |
| Prepayments | **125** | **-** | - |
| **Total assets recognised** | **1,985** | **-** | 17,695 |
|  |  |  |  |
| **Liabilities recognised** |  |  |  |
| Supplier | **1** | **-** | - |
| Other payables | **6** | **-** | 192 |
| Employee provisions | **525** | **-** | 13,855 |
| Other provisions | **466** | **-** | - |
| **Total liabilities recognised** | **998** | **-** | 14,047 |
| **Net assets recognised** | **987** | **-** | 3,648 |
|  |  |  |  |
| **Income** |  |  |  |
| Recognised by the receiving entity | **4,539** | **-** | - |
| Recognised by the losing entity | **1,293** | **-** | 62 |
| **Total income** | **5,832** | **-** | 62 |
|  |  |  |  |
| **Expenses** |  |  |  |
| Recognised by the receiving entity | **7,820** | **-** | 30,508 |
| Recognised by the losing entity | **3,810** | **-** | 14,801 |
| **Total expenses** | **11,630** | **-** | 45,309 |
|  |  |  |  |
| **FUNCTIONS RELINQUISHED** |  |  |  |
| **Assets relinquished** |  |  |  |
| Trade and other receivables | **(20,226)** | **(3,175)** | - |
| Accrued revenue | **(3,202)** | **-** | - |
| Land and buildings | **(753)** | **(64)** | - |
| Infrastructure, plant and equipment | **(10,565)** | **(17)** | - |
| Computer software | **(4,074)** | **(9,444)** | - |
| Prepayments | **(6,714)** | **(649)** | - |
| **Total assets relinquished** | **(45,534)** | **(13,349)** | - |
|  |  |  |  |
| **Liabilities relinquished** |  |  |  |
| Supplier | **(815)** | **-** | - |
| Other payables | **(1,746)** | **(668)** | - |
| Employee provisions | **(5,372)** | **(1,576)** | - |
| Other provisions | **(118)** | **-** | - |
| **Total liabilities relinquished** | **(8,051)** | **(2,244)** | - |
| **Net assets relinquished** | **(37,483)** | **(11,105)** | - |

1 Functions previously supported by the Shared Services Centre, a joint venture between the Departments of Education and Training and Employment, were transferred to new arrangements on 1 December 2016. Transactional services were transferred to the Department of Finance, information and communications technology and some corporate services to the Department of Employment, and library and audio-visual services to the department. The net assets relinquished were $48.6 million and net assets recognised were $1.0 million.

2 The early childhood and child care functions were assumed from the Department of Social Services following the Administrative Arrangement Orders of 21 September 2015. The net book value of the assets and liabilities were transferred for no consideration. The net assets assumed total $3.6 million.

|  |  |
| --- | --- |
| **Note D2.1: Administered restructuring** | |
|  | 2016 |
| **Function** | Early Childhood and Child Care |
| **Entity** | Department of Social Services1 |
|  | $’000 |
| **FUNCTIONS ASSUMED** |  |
| **Assets recognised** |  |
| Cash and cash equivalents | 102,070 |
| Trade and other receivables | 406,541 |
| Advances and loans | 339 |
| Other non-financial assets | 4,169 |
| **Total assets recognised** | 513,119 |
|  |  |
| **Liabilities recognised** |  |
| Suppliers | 95 |
| Personal benefits payable | 197,991 |
| Grants payable | 2,583 |
| Provision for personal benefits | 746,777 |
| **Total liabilities recognised** | 947,446 |
| **Net liabilities recognised** | (434,327) |
|  |  |
| **Income assumed** |  |
| Recognised by the receiving entity | 5,226 |
| Recognised by the losing entity | 408 |
| **Total income assumed** | 5,634 |
|  |  |
| **Expenses assumed** |  |
| Recognised by the receiving entity | 4,670,116 |
| Recognised by losing entity | 2,098,320 |
| **Total expenses assumed** | 6,768,436 |
|  |  |
| The Early Childhood Education and Care functions transferred from the Department of Social Services following the Administrative Arrangement Orders of 21 September 2015.   The net liabilities assumed total $434.3 million with no consideration.  There was no administered restructuring during 2016-17. | |
|  |  |

* 1. Key Management Personnel Remuneration

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note D3.1: Key management personnel remuneration** | **$'000** |  | $'000 |
|  |  |  |  |
| Short-term employee benefits | **2,236** |  | 1,764 |
| Post-employment benefits | **365** |  | 267 |
| Other long-term employee benefits | **379** |  | 264 |
| **Total key management personnel remuneration** | **2,980** |  | 2,295 |

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the department. The department has determined the KMP to be the Portfolio Minister, the Secretary, the Associate Secretary and the Deputy Secretaries. Other senior executives may at times act in one of these positions for a short period of time during the year. These officers are not reported as KMP unless they have acted in the position for more than three consecutive months.

The above table includes the remuneration for seven officers occupying KMP positions during the year (2015‑16: six). The remuneration and benefits for the Portfolio Minister are excluded from the table as they are set by the Remuneration Tribunal and are not paid by the department.

The amounts in the table are prepared on an accrual basis and include: salary, superannuation, annual and long service expense (including revaluations of leave provisions), allowances and changes in ancillary costs and probability rates on leave provisions.

* 1. Related Party Disclosures

The department is an Australian Government controlled entity. Related parties to the department are key management personnel as described in note D3.1.

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment or refund of child care benefits or higher education loans. These transactions have not been separately disclosed in this note.

*Transactions with entities where key management personnel have an interest*

Several of the department’s key management personnel are members of the board of directors for a number of educational institutions and councils. During 2016-17 the department purchased services from, and awarded grants to, these entities in relation to the:

* Support of quality teaching and school leadership
* Support of the national quality framework for early childhood education and care
* Collection of data, development and delivery of research studies, questionnaires and assessments
* Hosting and maintaining the Foundation Skills Assessment Tool.

|  |  |  |
| --- | --- | --- |
|  | **Transaction value** | **Balance outstanding** |
|  |
|  | **2017** | **2017** |
| **Related party transactions** | **$'000** | **$'000** |
| **Departmental** |  |  |
| Supplier expenses | **1,666** | **-** |
| **Administered** |  |  |
| Supplier expenses | **1,143** | **216** |
| Grants | **35,213** | **-** |

All purchases were conducted under normal terms and conditions and grants were awarded in accordance with the Commonwealth Grants Policy Framework.

* 1. Budgetary Reporting

Statement of comprehensive income

In 2016-17 the department reported an operating deficit on continuing operations of $21.0 million against a budgeted deficit of $35.1 million as reported in the 2016-17 Portfolio Budget Statements1.

The department’s total expenses of $392.9 million were $11.8 million more than originally budgeted principally reflecting the establishment of the new VET student loans program, which commenced on 1 January 2017, replacing the VET FEE-HELP scheme. The VET student loans program provides income contingent loans to eligible students undertaking vocational education and training in eligible courses. The VET student loans program is a new measure announced since the 2016-17 Budget.

On 1 December 2016, following a machinery of government announcement, functions previously supported by the Shared Services Centre (a joint operating arrangement between the department and the Department of Employment) transitioned to new arrangements with: transactional services transferring to the Department of Finance; information and communications technology and other corporate services to the Department of Employment; and the library and audio-visual services returning to the department. This resulted in a change to the department’s cost structure to reflect purchase-provider relationships. The department also reported reduced depreciation and amortisation expense reflecting the transfer of non-financial assets with a net book value of $23.8 million between agencies.

The department reported own source income of $32.1 million, $4.1 million more than originally budgeted. This variance primarily reflects additional receipt collection services provided free of charge by the Australian Taxation Office. A total of $8.1 million has been recognised as a gain and corresponding expense in the department’s accounts. There was also a $1.0 million reversal of a previous write-down to leasehold improvement assets. Revaluations of assets are not included in the budget estimates.

Revenue from Government totalled $339.8 million in 2016-17, $21.8 million more than originally budgeted. Additional operating funding totalling $15.6 million was provided through additional estimatescomprising: $11.1 million to implement the VET Student Loans program; reclassification of $1.8 million from the departmental capital budget; and other minor variations totalling $2.7 million. The Unique Student Identifier special account reported $6.25 million in appropriation from Government. This funding was not allocated at the time the original budget was prepared.

**Statement of financial position**

As at 30 June 2017 the department’s total equity was $61.5 million compared to the original budget of $91.3 million2.

This decrease of $29.8 million mainly reflects the transfer out of assets and liabilities to the departments of Finance and Employment following the machinery of government announcement and the flow on effects of depreciation and amortisation expense on the department’s operating result. All balance sheet items, with the exception of cash, were impacted by this transfer.

**Statement of cash flows**

The variances between budget and actuals in the statement of cash flows are primarily the flow on effect from the events already described and timing differences between cash receipts and payments to revenue and expense.

1 The government does not provide operating funding for make-good, depreciation or amortisation expenses. Rather, capital funding is received when assets need to be replaced and is recognised directly in equity.

2 The original budget was published in May 2016. As a consequence the budgeted opening balance as at 1 July 2016 needed to be estimated. Accordingly, variances to budget can at least in part, be attributed to the prior year results.

* 1. Administered – Budgetary Reporting

**Administered schedule of comprehensive income**

In 2016-17 the department administered $41.5 billion of expenses on behalf of the government, of which, $26.9 billion (65 per cent) represented grants primarily to schools and higher education facilities which were delivered within 1.3 per cent of the original budget estimate.

During 2016-17 the department administered $7.3 billion of personal benefits against a budget of $8.3 billion reflecting lower growth than projected at the time the original budget was prepared. The estimates were revised during the course of the year to $7.4 billion1.

At the time the budget was prepared the fair values of the higher education superannuation provision, higher education loans and trade support loans were based upon 2014-15 data and actuarial assumptions. Any changes in the actuary’s assessment and the Government bond rates used to discount future cash flows is brought to account annually through fair value gains or losses and will also impact concessional loan discount expense and interest revenue.

As at 30 June 2017, the Australian Government Actuary estimated the fair value of the higher education loans to be $35.9 billion. This balance takes into account new loans and repayments made during 2016-17, unwinding of discount and a fair value loss totalling $6.1 billion. The three main factors contributing to this loss are: modelling the VET FEE-HELP cohort (using this cohort’s future incomes and payment patterns) as a separate group within the total higher education loan program for existing debt, $2.0 billion; the estimated debt not expected to be recovered on new loans entered into during the year, $1.9 billion; applying the current indexation rate and yield curve to the actuarial model, $1.9 billion. The concessional loan discount expense was zero in 2016-17 as the effective real interest rate assumed for the valuation is negative or close to zero at durations where a substantial proportion of estimated repayments are projected to occur.

In 2016-17 the department administered revenue totalling $1.3 billion compared to a budget of $2.2 billion. This variance was predominantly driven by changes in actuarial assumptions reducing the amount of interest revenue on higher education loans combined with lower than budgeted loan application fees. The impact of these was partially offset by an increase to the interest rate used to estimate higher education superannuation liability cash flows resulting in a fair value gain of $0.4 billion and higher than expected student enrolments increasing tuition protection service levies to $9.8 million.

The change in the asset revaluation surplus reflects the movement in the net asset value of administered investments. In 2016-17 the net assets of the Australian National University increased by $219.0 million.

Movements in administered investments, write-downs of assets, act of grace payments and reversals of previous write-downs are difficult to predict and are not included in the budget estimates.

**Administered schedule of asset and liabilities**

As at 30 June 2017 assets administered on behalf of government totalled $39.5 billion compared to an original budget of $47.9 billion.

As previously noted, at the time the budget was prepared the fair value of the higher education loans and trade support loans were based upon 2014-15 data and actuarial assumptions. Any changes in the actuary’s assessment and the Government bond rates impact on the actual value of the receivables at 30 June.

Administered investments have increased by $220.1 million during the year and are valued at $2.3 billion at 30 June 2017. This movement, and the variance to budget, is mainly represented by a change in the net asset value of the Australian National University.

As at 30 June 2017, payables total $241.9 million, $56.4 million less than the budget of $298.3 million. The reduction in personal benefits payable is the main driver of this variance and is consistent with lower than budgeted expenses for the year. Other variances, particularly in creditors and accruals, reflect the invoices on hand at the end of the financial year and are, by nature, difficult to predict.

As at 30 June 2017, provisions totalled $7.4 billion compared to a budget of $7.3 billion, a variance of 2.3 per cent. The higher education superannuation provision was $0.5 billion greater than budget mainly reflecting a change in the bond rate used to discount future cash flows. At the time the original budget was prepared the personal benefits provision was estimated to have a closing balance of $1.3 billion. During 2016-17 the child care estimation model was updated to use a single data source and undertake time series modelling based upon historic data over a statistically valid time period and the estimate was revised down to $954.2 million2. As at 30 June 2017 the personal benefits provision is reported at $979.4 million.

1 Revised estimates are published in the Portfolio Additional Estimates Statements 2016-17.

2 Estimated actual published in the Portfolio Budget Statements 2017-18.

1. Managing Uncertainties
   1. Financial Instruments

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** |  | 2016 |
| **Note E1.1: Categories of financial instruments** | **$'000** |  | $'000 |
|  |  |  |  |
| **Financial assets** |  |  |  |
| **Loans and receivables** |  |  |  |
| Cash and cash equivalents | **5,831** |  | 6,132 |
| Goods and services receivable | **1,577** |  | 7,599 |
| Accrued revenue | **4,183** |  | 1,996 |
| **Total financial assets** | **11,591** |  | 15,727 |
|  |  |  |  |
| **Financial liabilities** |  |  |  |
| Trade creditors and accruals | **27,440** |  | 27,100 |
| **Total financial liabilities** | **27,440** |  | 27,100 |

The book value of financial instruments equals the fair value.

Asset and liabilities are recognised to the extent that good or services have been provided / received (regardless of whether the invoice has been issued / received). Supplier and other payables are recognised at amortised cost.

|  |  |  |  |
| --- | --- | --- | --- |
| **Note E1.2: Net gains or losses on financial assets** |  |  |  |
|  |  |  |  |
| Impairment of receivables - goods and services | **316** |  | 98 |
| **Net losses on financial assets** | **316** |  | 98 |
|  |  |  |  |

Financial assets are assessed for impairment at the end of each reporting period.

* 1. Administered – Financial Instruments

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | |  | | 2016 | |
| **Note E2.1: Categories of financial instruments** | **$'000** | |  | | $'000 | |
|  |  | |  | |  | |
| **FINANCIAL ASSETS** |  | |  | |  | |
| **Financial assets at fair value through other comprehensive   income** |  | |  | |  | |
| Investments | **2,338,384** | |  | | 2,118,337 | |
| **Total financial assets at fair value through other comprehensive   income** | **2,338,384** | |  | | 2,118,337 | |
|  |  | |  | |  | |
| **Loans and receivables** |  | |  | |  | |
| Cash and cash equivalents | **85,478** | |  | | 72,092 | |
| Goods and services receivable | **120,127** | |  | | 36,925 | |
| **Total loans and receivables** | **205,605** | |  | | 109,017 | |
|  |  | |  | |  | |
| **Financial assets at fair value through profit or loss (designated)** |  | |  | |  | |
| Higher education loans | **35,916,286** | |  | | 36,807,652 | |
| Trade support loans | **282,520** | |  | | 145,680 | |
| Child care loans | **145** | |  | | 591 | |
| **Total financial assets at fair value through profit or loss   (designated)** | **36,198,951** | |  | | 36,953,923 | |
| **Total financial assets categorised as financial instruments** | **38,742,940** | |  | | 39,181,277 | |
|  |  | |  | |  | |
| **FINANCIAL LIABILITIES** |  | |  | |  | |
| **Financial liabilities measured at amortised cost** |  | |  | |  | |
| Trade creditors and accruals | **95,137** | |  | | 57,624 | |
| Grants payable | **13,744** | |  | | 3,318 | |
| **Total financial liabilities measured at amortised cost** | **108,881** | |  | | 60,942 | |
| **Total financial liabilities** | **108,881** | |  | | 60,942 | |
|  |  | |  | |  | |
| **Note E2.2: Net gains or losses on financial assets** | |  | |  | |  |
|  | |  | |  | |  |
| **Financial assets at fair value through other comprehensive income** | |  | |  | |  |
| Gains (losses) recognised in equity | | **220,047** | |  | | (31,593) |
| **Net gains (losses) from financial assets at fair value through other   comprehensive income** | | **220,047** | |  | | (31,593) |
|  | |  | |  | |  |
| **Loans and receivables** | |  | |  | |  |
| Interest revenue | | **44** | |  | | 7 |
| Reversal of impairment - goods and services receivable | | **675** | |  | | - |
| Write-down and impairment | | **(70,646)** | |  | | 789 |
| **Net gains (losses) from loans and receivables** | | **(69,927)** | |  | | 796 |
|  | |  | |  | |  |
| **Financial assets at fair value through profit or loss (designated)** | | | | | | |
| Interest revenue | | **503,004** | |  | | 529,330 |
| Other revenue | | **275,792** | |  | | 675,522 |
| Concessional loan discount | | **-** | |  | | (636,237) |
| Trade support loan discount | | **(22,571)** | |  | | (19,511) |
| Fair value losses | | **(6,060,445)** | |  | | (1,058,199) |
| **Net gains (losses) at fair value through profit or loss (designated)** | | **(5,304,220)** | |  | | (509,095) |
| **Net gains (losses) on financial assets** | | **(5,154,100)** | |  | | (539,892) |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note E2.3: Fair value of financial instruments** |  |  |  |

The book value of financial instruments equals the fair value.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Note E2.4: Credit risk** |  |  |  |  |  |

The fair value of investments is represented by the Government’s proportional interest in the net assets of the entities which are not exposed to a high level of credit risk. Movements in the net asset values are brought to account through other comprehensive income. Note 5.3 refers.

Administered loans and receivables predominantly represent cash or goods and services receivable and as such are not exposed to a high level of credit risk. Credit risk is managed by undertaking background and credit checks prior to entering into debtor relationships and applying debt recovery policies and procedures. The risk of default on payments has been assessed and an impairment provision brought to account. Note 5.2 refers.

The recoverability of financial assets designated to be measured at fair value through profit and loss are factored into the annual fair value actuarial assessments. Movements in the assessments take into account future income projections, the pattern and timing of repayments and debt not expected to be recovered. Movements in the actuarial assessment are recognised as a gain or loss in the administered schedule of comprehensive income. Note A3.6 refers.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Credit quality of financial assets not past due or individually determined as impaired** |  | **Not past due nor impaired** | **Past due or impaired** | Not past due nor impaired | Past due or impaired |
|  |
|  | **2017** | **2017** | 2016 | 2016 |
|  |  | **$'000** | **$'000** | $'000 | $'000 |
| **Financial assets at fair value through other comprehensive income** |  |  |  |  |  |
| Investments |  | **2,338,384** | **-** | 2,118,337 | - |
| **Loans and receivables** |  |  |  |  |  |
| Cash at bank and on hand |  | **85,478** | **-** | - | - |
| Goods and services receivable |  | **42,420** | **156,198** | 29,727 | 18,755 |
| **Fair value through profit or loss (designated)** | |  |  |  |  |
| Higher education loans |  | **35,916,286** | **-** | 36,807,652 | - |
| Trade support loans |  | **282,520** | **-** | 145,680 | - |
| Child care loans |  | **145** | **-** | 591 | - |
| **Total** |  | **38,665,233** | **156,198** | 39,101,987 | 18,755 |
|  |  |  |  |  |  |
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|  |  |  |  |  |  |
| **Ageing of financial assets that were past due but not impaired as at 30 June 2017** | **0 to 30** | **31 to 60** | **61 to 90** | **90+** |  |
| **days** | **days** | **days** | **days** | **Total** |
| **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Goods and services receivable | **58,569** | **1,219** | **4,159** | **13,760** | **77,707** |
| **Total** | **58,569** | **1,219** | **4,159** | **13,760** | **77,707** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Ageing of financial assets that were past due but not impaired as at 30 June 2016 | 0 to 30 | 31 to 60 | 61 to 90 | 90+ |  |
| days | days | days | days | Total |
| $'000 | $'000 | $'000 | $'000 | $'000 |
| Goods and services receivable | 292 | 166 | 54 | 6,686 | 7,198 |
| Total | 292 | 166 | 54 | 6,686 | 7,198 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Note E2.5: Liquidity risk** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| The department is exposed to minimal liquidity risk and is appropriated funding from the Australian Government. The department manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, the department has policies in place to ensure timely payments are made when due and has no past experience of default. | | | | | | |

|  |  |  |  |
| --- | --- | --- | --- |
| **Note E2.6: Market risk** |  |  |  |
|  |  |  |  |
| The department holds basic financial instruments that do not expose it to certain market risks including currency or interest rate risk. | | | |

* 1. Fair Value Measurement

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fair value is a market based, rather than entity specific, measurement. The objective in all cases is to estimate the price at which an orderly transaction to sell the asset would take place between market participants under current market conditions at the measurement date. Where possible the assets are valued based upon observable inputs, such as quoted prices in active markets or other market transactions or information. Where this information is not available valuation techniques rely upon unobservable inputs. The different levels of the fair value hierarchy are defined below. | | | | | |
| Level 1: Quoted prices (unadjusted) in active markets for identical assets. | | | | | |
| Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly. | | | | | |
| Level 3: Unobservable inputs for the asset. | | | | |  |
|  |  |  |  |  |  |
| An analysis of the fair value of non-financial assets by level is provided below. | | | | | |
|  |  |  |  |  |  |
| **Fair value measurement as at 30 June** | | |  |  |  |
|  | **2017** | **2016** | **Level** | **Valuation technique2** | **Inputs used** |
|  | **$'000** | **$'000** |
| **Non-financial assets** |  |  |  |  |  |
| Land | **170** | 170 | 2 | Market | Adjusted market transactions |
| Buildings | **221** | 230 | 2 | Market | Adjusted market transactions |
| Leasehold improvements | **32,951** | 35,855 | 3 | Depreciated replacement cost | Replacement cost new  Useful life and consumed economic benefit / obsolescence of asset |
| Leasehold improvements - under construction | **2,442** | 882 | 2 | Replacement cost | Current prices relevant to the location of the asset |
| Infrastructure, plant and equipment | **429** | 7,404 | 2 | Market | Adjusted market transactions |
| Infrastructure, plant and equipment | **78** | 4,839 | 3 | Depreciated replacement cost | Replacement cost new  Useful life and consumed economic benefit / obsolescence of asset |
| Infrastructure, plant and equipment | **598** | 384 | 3 | Market | Adjusted market transactions |
| Infrastructure, plant and equipment - under construction | **-** | 32 | 2 | Replacement cost | Current prices relevant to the location of the asset |
| **Total** | **36,889** | 49,796 |  |  |  |
| **Total in the statement of financial position1** | **36,889** | 49,796 |  |  |  |
|  |  |  |  |  |  |

1 The book value of these assets equals the fair value.

2 The methods and valuation techniques used for the purpose of measuring fair value of assets in 2017 are unchanged from the previous reporting period.

* 1. Administered Fair Value Measurement

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| **Note E4.1: Fair value measurement of level 2 and 3 financial instruments** | | | | | | |
| An analysis of the fair value of financial assets by level is provided below. | | | | | | |
|  |  |  |  |  |  |  |
| **Fair value measurement as at 30 June** | | |  |  |  |  |
|  |  |  |  |  |  |  |
|  | **2017** | 2016 |  | **Valuation technique** | **Inputs used** | |
|  | **$'000** | $'000 | Level |
| **Financial assets** |  |  |  |  |  |  |
| Concessional loans | **36,198,951** | 36,953,923 | 3 | Loan conditions | Principal due | |
| Investments | **2,338,384** | 2,118,337 | 3 | Net assets of the entity | Net assets of the entity | |
| **Total** | **38,537,335** | 39,072,260 |  |  |  |  |
| **Total in the schedule of assets and liabilities** | **38,537,335** | 39,072,260 |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Note E4.2: Movement in level 2 and 3 fair value measurement** | | | | | | |
| There has been no transfer between levels during the period. | | | | | | |
|  |  |  |  |  |  |  |
|  | **Financial assets** | | | | | |
|  | **Concessional loans** | | **Investments** | | **Total** | |
|  | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
|  | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| **Opening balance** | **36,953,923** | 30,497,818 | **2,118,337** | 2,149,930 | **39,072,260** | 32,647,748 |
| Total gains/(losses) recognised in net cost of services | **(5,304,220)** | 326,313 | **-** | - | **(5,304,220)** | 326,313 |
| Total gains/(losses) recognised in administered equity | **-** | - | **220,047** | (31,593) | **220,047** | (31,593) |
| Issues | **6,995,987** | 8,295,624 | **-** | - | **6,995,987** | 8,295,624 |
| Settlements | **(2,446,739)** | (2,165,832) | **-** | - | **(2,446,739)** | (2,165,832) |
| **Closing balance** | **36,198,951** | 36,953,923 | **2,338,384** | 2,118,337 | **38,537,335** | 39,072,260 |