

Department of Education and Training
Financial Statements
for the period ended 30 June 2017

Department of Education and Training
STATEMENT BY THE ACCOUNTABLE AUTHORITY AND CHIEF FINANCIAL OFFICER

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.....

Dr Michele Bruniges AM

Secretary

12 September 2017

Signed.....

Marcus Markovic

Chief Financial Officer

12 September 2017

Department of Education and Training
STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000	2017 Original Budget ¹ \$'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)

¹Budget reported in the 2016-17 Portfolio Budget Statements published on 3 May 2016.

The above statement should be read in conjunction with the accompanying notes.

Department of Education and Training
STATEMENT OF FINANCIAL POSITION
as at 30 June 2017

	Notes	2017 \$'000	2016 \$'000	2017 Original Budget ¹ \$'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

¹Budget reported in the 2016-17 Portfolio Budget Statements published on 3 May 2016.

The above statement should be read in conjunction with the accompanying notes.

Department of Education and Training
STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000	2017 Original Budget ¹ \$'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

¹Budget reported in the 2016-17 Portfolio Budget Statements published on 3 May 2016.

The above statement should be read in conjunction with the accompanying notes.

Department of Education and Training
STATEMENT OF CASH FLOWS
for the period ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000	2017 Original Budget' \$'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		<u>372,265</u>	<u>373,370</u>	<u>339,566</u>
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		<u>375,269</u>	<u>376,348</u>	<u>339,566</u>
Net cash used by operating activities		<u>(3,004)</u>	<u>(2,978)</u>	<u>-</u>
INVESTING ACTIVITIES				
Cash received				
Proceeds from sale of infrastructure, plant and equipment		4	23	-
Total cash received		<u>4</u>	<u>23</u>	<u>-</u>
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		<u>19,529</u>	<u>28,200</u>	<u>27,354</u>
Net cash used by investing activities		<u>(19,525)</u>	<u>(28,177)</u>	<u>(27,354)</u>
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		<u>22,228</u>	<u>27,470</u>	<u>27,354</u>
Net cash from financing activities		<u>22,228</u>	<u>27,470</u>	<u>27,354</u>
Net decrease in cash held		<u>(301)</u>	<u>(3,685)</u>	<u>-</u>
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	<u>5,831</u>	<u>6,132</u>	<u>6,631</u>

¹Budget reported in the 2016-17 Portfolio Budget Statements published on 3 May 2016.

The above statement should be read in conjunction with the accompanying notes.

Department of Education and Training
ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the period ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000	2017 Original Budget ¹ \$'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)

¹Budget reported in the 2016-17 Portfolio Budget Statements published on 3 May 2016.

The above statement should be read in conjunction with the accompanying notes.

Department of Education and Training
ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES
as at 30 June 2017

	Notes	2017 \$'000	2016 \$'000	2017 Original Budget ¹ \$'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

¹Budget reported in the 2016-17 Portfolio Budget Statements published on 3 May 2016.

The above statement should be read in conjunction with the accompanying notes.

Department of Education and Training
ADMINISTERED RECONCILIATION SCHEDULE
for the period ended 30 June 2017

	2017 \$'000	2016 \$'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.

Department of Education and Training
ADMINISTERED CASH FLOW STATEMENT
for the period ended 30 June 2017

	Notes	2017 \$'000	2016 \$'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		<u>1,335,710</u>	<u>1,251,567</u>
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		<u>36,615,944</u>	<u>32,804,222</u>
Net cash used by operating activities		<u>(35,280,234)</u>	<u>(31,552,655)</u>
INVESTING ACTIVITIES			
Cash received			
Repayments of loans		2,388,159	2,165,832
Total cash received		<u>2,388,159</u>	<u>2,165,832</u>
Cash used			
Loans provided		6,995,987	8,295,624
Total cash used		<u>6,995,987</u>	<u>8,295,624</u>
Net cash used by investing activities		<u>(4,607,828)</u>	<u>(6,129,792)</u>
Net decrease in cash held		<u>(39,888,062)</u>	<u>(37,682,447)</u>
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		<u>43,801,610</u>	<u>40,096,392</u>
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		<u>(3,900,162)</u>	<u>(2,367,985)</u>
Cash and cash equivalents at the beginning of the reporting period		<u>72,092</u>	<u>26,132</u>
Cash and cash equivalents at the end of the reporting period	B5.1	<u>85,478</u>	<u>72,092</u>

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

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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

Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

A: Financial Performance

A1: Expenses

	2017	2016
	\$'000	\$'000
<u>Note A1.1: Employee benefits</u>		
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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2017 \$'000	2016 \$'000
<u>Note A1.3: Write-down and impairment of assets</u>		
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 equipment ¹	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

A2: 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

Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Income and Expenses Administered on Behalf of Government

A3: Administered – Expenses

	2017	2016
<u>Note A3.1: Supplier</u>	\$'000	\$'000
Services rendered		
Assistance to families with children ¹	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 children ¹	54,998	692
Total subsidies	416,764	327,810
Note A3.3: Personal benefits		
Assistance to families with children ¹	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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2017	2016
<u>Note A3.4: Grants</u>	\$'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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

A4: Administered – Income

	2017	2016
<u>Note A4.1: Interest</u>	\$'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	-

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

B: Financial Position

B1: Financial Assets

	2017	2016
	\$'000	\$'000
<u>Note B1.1: Cash and cash equivalents</u>		
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
<u>Note B1.2: Trade and other receivables</u>		
Goods and services receivable		
Goods and services	1,893	7,697
Total goods and services receivable	1,893	7,697
Appropriations receivable		
Operating annual appropriations ¹	53,060	56,132
Operating annual appropriations - departmental capital budget ²	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 2017 \$'000	Goods and services 2016 \$'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)

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

B2: Non-Financial Assets

Note B2.1: Reconciliation of the opening and closing balances of property, infrastructure, plant and equipment and computer software

	<u>Land and buildings</u>		Infrastructure, plant and equipment	Computer software	Total
	Land and buildings \$'000	Leasehold improvements \$'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.

Department of Education and Training

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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

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

B3: Payables

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

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	<u>306</u>	<u>542</u>
Total other payables	<u>18,237</u>	<u>20,329</u>

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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

B4: Provisions

	2017	2016
<u>Note B4.1: Employee provisions</u>	<u>\$'000</u>	<u>\$'000</u>
Annual and long service leave provisions ¹	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 \$'000	Provision for restoration obligations \$'000	Provision for surplus lease space \$'000	Provision for onerous contract \$'000	Total other provisions \$'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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

B5: Administered – Financial Assets

	2017	2016
<u>Note B5.1: Cash and cash equivalents</u>	<u>\$'000</u>	<u>\$'000</u>
Cash held in the OPA - special accounts	85,478	72,092
Total cash and cash equivalents	85,478	72,092
<u>Note B5.2: Receivables</u>		
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)

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2017	2016
	\$'000	\$'000
Concessional loans		
Higher education loans		
Nominal value	55,424,526	50,432,490
Unexpired discount	(1,019,462)	874,555
Impairment	<u>(18,488,778)</u>	<u>(14,499,393)</u>
Carrying amount	<u>35,916,286</u>	<u>36,807,652</u>
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	<u>282,520</u>	<u>145,680</u>
Child care loans		
Nominal value	145	252
Restructure	-	339
Carrying amount	<u>145</u>	<u>591</u>
Total concessional loans	<u>36,198,951</u>	<u>36,953,923</u>

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	<u>36,756</u>	<u>36,901</u>
Total other investments	<u>2,338,384</u>	<u>2,118,337</u>

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).

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

B6: 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
<u>Note B6.2: Grants</u>	\$'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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

B7: Administered – Provisions

Note B7.1: Personal benefits and higher education superannuation provisions

	Provisions for HESP 2017 \$'000	Provisions for HESP 2016 \$'000	Provisions for personal benefits 2017 \$'000	Provisions for personal benefits 2016 \$'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.

Department of Education and Training
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

C: Funding

C1: Appropriations

Note C1.1: Annual appropriations ('recoverable GST exclusive')

	2017 \$'000	2016 \$'000
Departmental ordinary annual services		
Annual appropriation		
Operating ¹	333,539	254,837
Departmental capital budget ²	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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note C1.2: Unspent annual appropriations ('recoverable GST exclusive')

	2017	2016
	\$'000	\$'000
Departmental		
<i>Appropriation Act (No.1) 2016-17</i>	35,886	-
<i>Appropriation Act (No.2) 2016-17</i>	2,365	-
<i>Appropriation Act (No.3) 2016-17</i>	14,484	-
<i>Appropriation Act (No.4) 2016-17</i>	2,992	-
<i>Appropriation Act (No. 1) 2016-17 Capital Budget - Non Operating</i>	2,538	-
<i>Supply Act (No. 1) 2016-17 Capital Budget - Non Operating</i>	1,014	-
<i>Supply Act (No.2) 2016-17</i>	468	-
<i>Appropriation Act (No.1) 2015-16</i>	2,622	35,506
<i>Appropriation Act (No.2) 2015-16</i>	-	7,109
<i>Appropriation Act (No.3) 2015-16</i>	-	4,567
<i>Appropriation Act (No.4) 2015-16</i>	891	1,973
<i>Appropriation Act (No.1) 2014-15</i>	-	22,827
<i>Appropriation Act (No.2) 2013-14</i>	-	784
<i>Appropriation Act (No.1) 2013-14</i>	68	-
Cash at bank	1,742	2,596
Total departmental¹	65,070	75,362

Administered		
<i>Appropriation Act (No. 1) 2016-17²</i>	374,894	-
<i>Appropriation Act (No. 2) Specific Purpose Payments 2016-17</i>	1,519	-
<i>Appropriation Act (No.1) 2015-16³</i>	543,924	622,470
<i>Appropriation Act (No.2) Specific Purpose Payments 2015-16⁴</i>	3,243	3,243
<i>Appropriation Act (No.1) 2014-15⁵</i>	268,354	268,354
<i>Appropriation Act (No.3) 2014-15⁶</i>	14,836	14,836
<i>Appropriation Act (No.2) Specific Purpose Payments 2014-15⁷</i>	2,257	2,257
<i>Appropriation Act (No.1) 2013-14⁸</i>	110	110
<i>Appropriation Act (No.3) 2013-14⁹</i>	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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note C1.3: Special appropriations ('recoverable GST exclusive')

Authority	Appropriation applied	
	2017	2016
	\$'000	\$'000
<i>A New Tax System (Family Assistance) (Administration) Act 1999</i>	7,201,756	5,023,245
<i>Australian Education Act 2013</i>	17,039,994	15,669,315
<i>Higher Education Support Act 2003, section 238-12</i>	16,324,974	17,629,196
<i>Trade Support Loans Act 2014, section 104</i>	173,175	144,676
<i>VET Student Loans Act 2016, section 11</i>	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.

Department of Education and Training
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

C2: Special Accounts

Note C2.1: Special accounts ('recoverable GST exclusive')

	Education Investment Fund - Research Portfolio Special Account ¹		Education Investment Fund - Education Portfolio Special Account ²	
	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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	National Youth Affairs Research Scheme Special Account ³		Growth Fund Skills and Training Special Account ⁴	
	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 2013*, 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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Early Years Quality Fund Special Account ⁵		Overseas Student Tuition Fund Special Account ⁶	
	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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Services for Other Entities and Trust Moneys ⁷		Unique Student Identifier ⁸	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'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.

⁸ Unique 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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

C3: Regulatory Charging

	2017	2016
<u>Note C3.1: Regulatory charging summary</u>	<u>\$'000</u>	<u>\$'000</u>
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.

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.

C4: 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)

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

D: Other Items

D1: 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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

D2: Restructuring

Note D2.1: Departmental restructuring

Function Entity	2017		2016
	Shared Services Department of Employment ¹ \$'000	Shared Services Department of Finance ¹ \$'000	Early Childhood and Child Care Department of Social Services ² \$'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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note D2.1: Administered restructuring

	2016
Function	Early Childhood and Child Care
Entity	Department of Social Services ¹
	\$'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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

D3: Key Management Personnel Remuneration

	2017	2016
<u>Note D3.1: Key management personnel remuneration</u>	<u>\$'000</u>	<u>\$'000</u>
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.

D4: 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.

Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

D5: 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 estimates comprising: \$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.

Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

D6: 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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

E: Managing Uncertainties

E1: Financial Instruments

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

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	<u>316</u>	<u>98</u>
Net losses on financial assets	<u>316</u>	<u>98</u>

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

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

E2: Administered – Financial Instruments

	2017	2016
<u>Note E2.1: Categories of financial instruments</u>	<u>\$'000</u>	<u>\$'000</u>
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)

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

Department of Education and Training
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Ageing of financial assets that were past due but not impaired as at 30 June 2017	0 to 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'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 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

E3: 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		Valuation	
	\$'000	\$'000	Level	technique ²	Inputs used
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.

Department of Education and Training
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

E4: 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 \$'000	2016 \$'000	Level	Valuation technique	Inputs used
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 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'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