

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 2018 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 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 *Michele Bruniges*
Dr Michele Bruniges AM
Secretary
18 September 2018

Signed *K Partington*
Kym Partington FCPA
Acting Chief Financial Officer
18 September 2018

Department of Education and Training
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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 2018, 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 continued 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.

There has been no change to the functions of the department during 2017-18 other than the transfer of the Australian Institute of Aboriginal and Torres Strait Islander Studies from the Education and Training portfolio to the Prime Minister and Cabinet portfolio on 19 April 2018. Note I2 refers.

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 and Interpretations.

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

During the 2017-18 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. The Australian Government Actuary confirmed their assessment on 23 April 2018.

Opteon (North West WA) Pty Ltd undertook the valuation of a property in Kununurra, Western Australia as at 30 October 2017 for pre-sale advice which resulted in a write-down of the carrying value of the land and buildings of \$0.1 million. Jones Lang LaSalle Public Sector Valuations Pty Ltd undertook a

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

desktop valuation review of non-financial assets except for computer software and prepayments as at 30 June 2018. No material differences were identified between the carrying amounts and fair values of non-financial assets (2016-17: \$1.0 million increase to the fair value of leasehold improvements). Non-financial assets are assessed annually for impairment and where appropriate, the asset's 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 regular payments, either as a fee reduction via the child care provider or in some instances directly. The benefits are paid on the basis of family circumstances, including an estimate of taxable income. The lodgement of a recipient's tax return at the end of the financial year establishes actual income and may result in an adjustment to the recipient's entitlement.

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

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 receivable and provision.

The child care personal benefits impairment provision relies upon a profile of past customer behaviour and was assessed by the Australian Government Actuary in 2018.

As at 30 June 2018 the fair value of the personal benefits receivable is \$0.4 billion (2017: \$0.4 billion) and the provision is \$0.9 billion (2017: \$1.0 billion). Notes G1.2 and G3 refer.

From 2 July 2018 the child care fee assistance program will be replaced by the child care subsidy program. One feature of the new program is that in most cases individuals are no longer able to receive payments directly, but rather payments are made to child care providers to be passed on as a fee reduction to families. The Government will withhold a small portion of subsidy to cover end of financial year reconciliation adjustments.

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 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 VET student loans (VSL) program replaced the VET FEE-HELP scheme on 1 January 2017. 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 is relatively minor and any difference in repayment behaviour is considered immaterial in the context of the overall HELP receivable.

As at 30 June 2018 the Australian Government Actuary estimated the present value of the HELP debt to be \$39.9 billion (2017: \$35.9 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 \$0.8 billion in 2017-18 (2016-17: \$6.1 billion). Further information is provided at notes F1.7 and G1.2.

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

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 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 relatively 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 2018 is estimated at \$420.3 million (2016: \$282.5 million). A fair value loss of \$29.1 million has been recorded in 2017-18 (2016-17: \$10.2 million) reflecting a reduction in the deferral rate to reflect current government bond and indexation rates. Notes F1.7 and G1.2 refer.

Higher education superannuation program

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

As at 30 June 2018 the Australian Government Actuary estimated the present value of the superannuation liability to be \$6.5 billion (2017: \$6.5 billion) using the 2030 Government bond rate of 2.7 per cent (2017: 3.0 per cent). The Australian Government Actuary estimated the State's share of the total liability to be \$0.4 billion (2017: \$0.4 billion). Note G1.2 refers. A fair value loss of \$0.2 billion has been recognised in 2017-18 (2016-17: \$0.4 billion fair value gain). Notes F1.7 and F2.3 refer. Further information on the provision is provided at note G3.

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 in 2017-18 or future years.

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.

Changes to AASB 9 *Financial Instruments* are effective for reporting periods commencing from 2018-19. An assessment of the changes has been undertaken and the standard will not have a material impact on the financial statements in 2018-19.

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. An assessment has been undertaken and the standard is not expected to have a material financial impact, however there will be a change to disclosures in the financial statements for 2019-20 and future years.

The department will apply AASB 1058 *Income of Not-for-Profit Entities* from 2019-20. The standard outlines revenue recognition requirements for not-for-profit entities that receive volunteer services or enter into other transactions to acquire an asset for significantly less than its fair value to enable the entity to achieve its objectives. An assessment has been conducted alongside the assessment for AASB 15 and the standard is not expected to have a material financial impact, however there will be a change to disclosures in the financial statements for 2019-20 and future years.

The department will apply AASB 16 *Leases* from 2019-20. The vast majority of the department's current operating leases will move to the balance sheet, leaving a small proportion to be accounted for as expenses. The exact impact of this change cannot be reliably estimated at this time as it is dependent on the magnitude of the department's operating leases as at 1 July 2019 and the individual characteristics of each lease held at that time.

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

Taxation

The department is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Changes in Accounting Policy

There have been no changes to accounting policies that impact on the 2017-18 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.

In 2017-18, three students and four education providers received overpayments totalling \$118,285 under the Tuition Protection Service. The overpayments were incorrectly paid from the Overseas Student Tuition Fund, a special account established by the *Education Services for Overseas Students Act 2000*. Controls have been put in place to prevent similar events occurring in future. All the overpayments have been repaid.

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 was rectified in 2016-17 and controls put in place to prevent similar breaches occurring.

Shared Service Arrangements

The department and the then 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 (now the Department of Jobs and Small Business) and the Service Delivery Office, Department of Finance for the provision of services that were transferred to their respective departments.

Events after the Reporting Period

On 1 July 2018 sixty seven Indigenous services, currently funded through the Budget Based Funded (BBF) Program and 29 non-Indigenous services, funded through BBF and Community Support Programs transferred from the department to the Department of the Prime Minister and Cabinet and the Department of Social Services, respectively. There is expected to be minimal impact on departmental net assets as a result of the transfer.

From 2014-15 onwards, annual Appropriation Acts include an automatic repeal clause, where the Acts have a life span of up to three years. As a result, administered quarantined amounts under *Appropriation Act (No. 1) 2015-16*, \$543.9 million, and *Appropriation Act (No. 2) 2015-16*, \$3.2 million, are not legally available from 1 July 2018. Note H1.2 refers.

From 1 July 2018 the balance of the Early Years Quality Fund Special Account, \$42.1 million, has been quarantined pending return to the Official Public Account (OPA). Note H2 refers.

The Services for Other Entities and Trust Moneys (SOETM) Special Account established under the *Financial Management and Accountability Determination 2008/14* is due to sunset on 1 October 2018. The establishment of a new SOETM special account has been requested to replace the sunset account. The balance of the sunset account will transfer to the new account.

Department of Education and Training
STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2018

		2018	2017	2018 Original Budget ¹
	Notes	\$'000	\$'000	\$'000
NET COST OF SERVICES EXPENSES				
Employee benefits	A1.1	226,248	229,309	201,270
Supplier	A1.2	152,670	138,985	153,229
Grants		1,596	131	-
Depreciation and amortisation	B2.1	21,332	23,979	28,733
Write-down and impairment of assets	A1.3	9,877	492	-
Losses from asset sales		-	2	-
Total expenses		411,723	392,898	383,232
OWN-SOURCE INCOME				
Own-source revenue				
Sale of goods and rendering of services	A2.1	8,873	14,666	15,683
Rental income	A2.2	8,627	6,778	-
Resources received free of charge	A2.3	8,422	9,335	6,743
Total own-source revenue		25,922	30,779	22,426
Gains				
Gain from sale of assets		33	-	-
Reversal of previous asset write-downs	A2.4	-	976	-
Other gains	A2.5	103	343	-
Total gains		136	1,319	-
Total own-source income		26,058	32,098	22,426
Net cost of services		385,665	360,800	360,806
Revenue from Government	A2.6	350,331	339,789	332,073
Deficit on continuing operations		(35,334)	(21,011)	(28,733)
Total comprehensive loss	C4	(35,334)	(21,011)	(28,733)

¹Budget reported in the 2017-18 Portfolio Budget Statements published on 5 May 2017.

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 2018

	Notes	2018 \$'000	2017 \$'000	2018 Original Budget ¹ \$'000
ASSETS				
Financial assets				
Cash and cash equivalents	B1.1	6,381	5,831	6,132
Trade and other receivables	B1.2	72,811	66,266	70,794
Accrued revenue		199	4,183	1,996
Total financial assets		79,391	76,280	78,922
Non-financial assets				
Land and buildings	B2.1	32,817	35,784	33,115
Infrastructure, plant and equipment	B2.1	837	1,105	11,599
Computer software	B2.1	49,318	60,531	99,096
Prepayments		3,273	2,765	10,126
Total non-financial assets		86,245	100,185	153,936
Total assets		165,636	176,465	232,858
LIABILITIES				
Payables				
Supplier payables	B3.1	17,541	29,677	17,282
Other payables	B3.2	18,774	18,237	32,307
Total payables		36,315	47,914	49,589
Provisions				
Employee provisions	B4.1	63,792	66,531	73,568
Other provisions	B4.2	877	532	1,739
Total provisions		64,669	67,063	75,307
Total liabilities		100,984	114,977	124,896
Net assets		64,652	61,488	107,962
EQUITY				
Contributed equity		190,770	152,273	230,544
Reserves		1,244	1,244	59
Accumulated deficit		(127,362)	(92,029)	(122,641)
Total equity		64,652	61,488	107,962

¹Budget reported in the 2017-18 Portfolio Budget Statements published on 5 May 2017.

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 2018

	Notes	2018 \$'000	2017 \$'000	2018 Original Budget' \$'000
CONTRIBUTED EQUITY				
Opening balance				
Balance carried forward from previous period		152,273	170,610	195,124
Adjustment		2	(2)	-
Adjusted opening balance		<u>152,275</u>	<u>170,608</u>	<u>195,124</u>
Transactions with owners				
Distribution to owners				
Equity return	C1.2	(68)	-	-
Contributions by owners				
Equity injection - appropriations	C1.1	15,779	5,985	12,636
Departmental capital budget	C1.1	22,784	23,281	22,784
Restructuring	D2	-	(47,601)	-
Total transactions with owners		<u>38,495</u>	<u>(18,335)</u>	<u>35,420</u>
Closing balance as at 30 June		<u>190,770</u>	<u>152,273</u>	<u>230,544</u>
ACCUMULATED DEFICIT				
Opening balance				
Balance carried forward from previous period		(92,029)	(71,015)	(93,908)
Adjustment		1	(3)	-
Adjusted opening balance		<u>(92,028)</u>	<u>(71,018)</u>	<u>(93,908)</u>
Comprehensive income				
Deficit on continuing operations		(35,334)	(21,011)	(28,733)
Closing balance as at 30 June		<u>(127,362)</u>	<u>(92,029)</u>	<u>(122,641)</u>
ASSET REVALUATION RESERVES				
Opening balance				
Balance carried forward from previous period		1,244	1,244	59
Closing balance as at 30 June		<u>1,244</u>	<u>1,244</u>	<u>59</u>
Total equity as at 30 June		<u>64,652</u>	<u>61,488</u>	<u>107,962</u>

¹Budget reported in the 2017-18 Portfolio Budget Statements published on 5 May 2017.

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 2018

	Notes	2018 \$'000	2017 \$'000	2018 Original Budget ¹ \$'000
OPERATING ACTIVITIES				
Cash received				
Appropriations		384,669	345,457	331,780
Sale of goods and rendering of services		13,293	9,700	15,683
Net GST received		9,877	9,407	-
Other		9,378	7,701	-
Total cash received		<u>417,217</u>	<u>372,265</u>	<u>347,463</u>
Cash used				
Employee benefits		226,529	222,892	200,976
Suppliers		164,559	135,005	146,487
Grants		1,596	131	-
Section 74 receipts transferred to the Official Public Account (OPA)		22,833	17,241	-
Total cash used		<u>415,517</u>	<u>375,269</u>	<u>347,463</u>
Net cash from/(used by) operating activities		<u>1,700</u>	<u>(3,004)</u>	<u>-</u>
INVESTING ACTIVITIES				
Cash received				
Proceeds from the sale of infrastructure, plant and equipment		-	4	-
Proceeds from the sale of land and buildings		281	-	-
Total cash received		<u>281</u>	<u>4</u>	<u>-</u>
Cash used				
Development of computer software		15,416	16,080	35,420
Purchase of land and buildings		1,882	3,158	-
Purchase of infrastructure, plant and equipment		102	291	-
Total cash used		<u>17,400</u>	<u>19,529</u>	<u>35,420</u>
Net cash used by investing activities		<u>(17,119)</u>	<u>(19,525)</u>	<u>(35,420)</u>
FINANCING ACTIVITIES				
Cash received				
Contributed equity - equity injection		4,973	9,135	-
Contributed equity - departmental capital budget		10,996	13,093	35,420
Total cash received		<u>15,969</u>	<u>22,228</u>	<u>35,420</u>
Net cash from financing activities		<u>15,969</u>	<u>22,228</u>	<u>35,420</u>
Net increase/(decrease) in cash held		<u>550</u>	<u>(301)</u>	<u>-</u>
Cash and cash equivalents at the beginning of the reporting period		<u>5,831</u>	<u>6,132</u>	<u>6,132</u>
Cash and cash equivalents at the end of the reporting period	B1.1	<u><u>6,381</u></u>	<u><u>5,831</u></u>	<u><u>6,132</u></u>

¹Budget reported in the 2017-18 Portfolio Budget Statements published on 5 May 2017.

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

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

A. Departmental Financial Performance

A1: Expenses

	2018	2017
	\$'000	\$'000
A1.1: Employee benefits		
Salaries and entitlements	180,187	188,629
Superannuation:		
Defined benefit plans	18,901	20,359
Defined contribution plans	13,425	13,099
Separations and redundancies	11,047	4,476
Other	2,688	2,746
Total employee benefits	<u>226,248</u>	<u>229,309</u>

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

A1.2: Supplier

Goods and services supplied or rendered		
Consultants and contractors	48,905	38,021
IT services	37,268	30,575
Managed services	12,210	8,740
Resources received free of charge	8,422	9,335
Property	5,564	6,161
Travel	2,784	3,163
Other	9,132	11,669
Total goods and services supplied or rendered	<u>124,285</u>	<u>107,664</u>
Goods supplied	2,724	3,025
Services rendered	121,561	104,639
Total goods and services supplied or rendered	<u>124,285</u>	<u>107,664</u>
Other supplier expenses		
Operating lease rentals	27,083	29,105
Workers compensation expenses	1,302	2,216
Total other supplier expenses	<u>28,385</u>	<u>31,321</u>
Total supplier expenses	<u>152,670</u>	<u>138,985</u>

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

Operating lease commitments

The following significant leasing arrangements, representing 95 per cent of the department's lease commitments, are:

(a) 50 Marcus Clarke Street, Canberra: the current term for office accommodation expires on 23 May 2025 with one five year option, and is subject to a 3.35 per cent fixed annual increase except for a market review in May 2025.

(b) 226 Adelaide Terrace, Perth: the current term for office accommodation expires on 5 July 2020 with one three year option, and is subject to a 5 per cent fixed annual increase.

	2018 \$'000	2017 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases (including GST)		
Within 1 year	31,118	30,982
Between 1 to 5 years	117,860	115,797
More than 5 years	<u>57,441</u>	<u>86,304</u>
Total operating lease commitments	<u><u>206,419</u></u>	<u><u>233,083</u></u>

The above commitments include lease arrangements with other government agencies.

A1.3: Write-down and impairment of assets

Computer software	9,696	163
Land and buildings	147	10
Infrastructure, plant and equipment	33	3
Receivables - goods and services	<u>1</u>	<u>316</u>
Total write-down and impairment of assets	<u><u>9,877</u></u>	<u><u>492</u></u>

A2: Income

A2.1: Sale of goods and rendering of services

Provision of goods	473	470
Rendering of services	<u>8,400</u>	<u>14,196</u>
Total sale of goods and rendering of services	<u><u>8,873</u></u>	<u><u>14,666</u></u>

A2.2: Rental income

Sublease rent	<u>8,627</u>	<u>6,778</u>
Total rental income	<u><u>8,627</u></u>	<u><u>6,778</u></u>

Sublease rental income commitments

The department in its capacity as lessor of 50 Marcus Clarke Street, Canberra subleases spaces to various public and private sector entities with the latest option period ending in May 2025. Leasing arrangements include a 3.35 per cent fixed annual increase in all years.

The department in its capacity as lessor of 226 Adelaide Terrace, Perth subleases spaces to various public sector 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 a market review occurring at commencement of the option period.

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

	2018	2017
	\$'000	\$'000
Commitments for sublease rental income receivable (including GST)		
Within 1 year	8,190	7,226
Between 1 to 5 years	13,741	10,424
More than 5 years	<u>4,792</u>	<u>-</u>
Total sublease rental income commitments receivable	<u><u>26,723</u></u>	<u><u>17,650</u></u>

The above commitments include sublease arrangements with other government agencies.

A2.3: Resources received free of charge

Australian Taxation Office collection of revenues on behalf of the department	7,322	8,085
Australian National Audit Office financial statement audit fee	<u>1,100</u>	<u>1,250</u>
Total resources received free of charge	<u><u>8,422</u></u>	<u><u>9,335</u></u>

A2.4: Reversal of previous asset write-downs

Increase to the fair value of leasehold improvement assets	<u>-</u>	<u>976</u>
Total reversal of previous asset write-downs	<u><u>-</u></u>	<u><u>976</u></u>

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.

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.

Due to an interpretation of the financial framework, the department was unable to recognise \$12.6 million of revenue from Government in 2017-18. This amount comprised two matters which contributed to the department's operating deficit:

- On 18 December 2017, the Minister for Finance approved the transfer of \$5.3 million of departmental capital budget in 2017-18 from the department to the Department of Jobs and Small Business (JSB). The net additional appropriation provided to the department in *Appropriation Act (No. 3) 2017-18* was \$11.8 million, comprising an increase of \$17.1 million in operating funding and a reduction to the departmental capital budget of \$5.3 million. An interpretation of the FRR only permitted recognition of the net appropriation amount of \$11.8 million as revenue from Government.
- On 6 April 2018, the Minister for Finance approved a reclassification of \$7.3 million from the department's 2017-18 departmental capital budget to the operating budget. As the Australian Accounting Standards do not permit the reclassification of capital contributions to income, this amount has not been recognised as revenue from Government.

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

B. Departmental Financial Position

B1: Financial Assets

	2018	2017
	\$'000	\$'000
B1.1: Cash and cash equivalents		
Cash on hand or on deposit	2,292	1,742
Cash held in the OPA - special account	4,089	4,089
Total cash and cash equivalents	6,381	5,831
B1.2: Trade and other receivables		
Goods and services receivable		
Goods and services	3,389	1,893
Total goods and services receivable	3,389	1,893
Appropriations receivable		
Operating annual appropriations	50,378	56,612
Equity injections	17,522	6,716
Total appropriations receivable	67,900	63,328
Other receivables		
GST receivable from the Australian Taxation Office	1,571	1,361
Total other receivables	1,571	1,361
Total trade and other receivables (gross)	72,860	66,582
Less impairment allowance		
Goods and services receivable	(49)	(316)
Total impairment allowance	(49)	(316)
Total trade and other receivables (net)	72,811	66,266

Credit terms for goods and services receivable are net 30 days (2017: 30 days).

Movements in impairment allowance

	Goods and services	Goods and services
	2018	2017
	\$'000	\$'000
Opening balance as at 1 July	(316)	(98)
Amounts written off against the provision	224	98
Amounts recovered and reversed	44	-
Increase recognised in operating result	(1)	(316)
Closing balance as at 30 June	(49)	(316)

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

B2: Non-Financial Assets

B2.1: Reconciliation of the opening and closing balances of land and buildings, 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			
As at 1 July 2017					
Gross book value	400	35,393	1,426	104,546	141,765
Accumulated depreciation, impairment and amortisation	(9)	-	(321)	(44,015)	(44,345)
Net value as at 1 July 2017	391	35,393	1,105	60,531	97,420
Additions					
By purchase	-	1,882	70	-	1,952
By development	-	-	-	14,998	14,998
Other	-	-	48	-	48
Write-down and impairment recognised in net cost of services	(147)	-	(33)	(9,696)	(9,876)
Depreciation and amortisation	(6)	(4,458)	(353)	(16,515)	(21,332)
Disposals	(238)	-	-	-	(238)
Net value as at 30 June 2018	-	32,817	837	49,318	82,972
Net value as at 30 June 2018 represented by					
Gross book value	-	37,275	1,514	109,848	148,637
Accumulated depreciation, impairment and amortisation	-	(4,458)	(677)	(60,530)	(65,665)
Net value as at 30 June 2018	-	32,817	837	49,318	82,972

Purchases of non-financial assets are recognised initially at cost in the statement of financial position, except for purchases costing less than the asset capitalisation thresholds. Purchases below the threshold 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 2017.

Asset class	2018 Useful life	2018 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, except for software assets under development which are recognised at cost.

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

Land, buildings and leasehold improvements

There are no (2017: nil) leased properties that the department manages which are due to expire within the next 12 months that have leasehold improvement assets. All leasehold improvements are assessed for indications of impairment at the end of each reporting period. No indicators of impairment were found for leasehold improvements in 2017-18 (2016-17: nil).

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. All infrastructure, plant and equipment are assessed for indications of impairment at the end of each reporting period. No indicators of impairment were found for infrastructure, plant and equipment in 2017-18 (2016-17: nil).

Computer software

The department's computer software comprises of 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. This resulted in impairment expense of \$9.7 million in 2017-18 (2016-17: \$0.2 million), note A1.3 refers. In 2017-18 the Australian Apprenticeship Management System was written-off resulting in \$9.7 million of impairment expense.

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.

Opteon (North West WA) Pty Ltd undertook the valuation of a property in Kununurra, Western Australia as at 30 October 2017 for pre-sale advice which resulted in a write-down of the carrying value of the land and buildings by \$0.1 million. Subsequently, a small gain on sale (\$0.03 million) was recognised upon sale of the property in March 2018, as the proceeds (\$0.28 million) exceeded the carrying value of the land and buildings and cost of disposal as at transaction date.

In 2017-18 Jones Lang LaSalle Public Sector Valuations Pty Ltd undertook a desktop valuation review of non-financial assets except for computer software and prepayments. No material differences were identified between the carrying amounts and fair values (2016-17: \$1.0 million increase to the fair value of leasehold improvements).

	2018 \$'000	2017 \$'000
Capital commitments payable (including GST)		
Leasehold improvements		
Within 1 year	-	111
Total leasehold improvements	-	111
Total capital commitments payable	-	111

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

B3: Payables

	2018	2017
<u>B3.1: Supplier payables</u>	<u>\$'000</u>	<u>\$'000</u>
Trade creditors and accruals	17,082	27,440
Operating lease rentals	459	2,237
Total supplier payables	<u>17,541</u>	<u>29,677</u>

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

B3.2: Other payables

Lease incentives	9,650	11,062
Separations and redundancies	4,756	3,796
Wages and salaries	2,016	1,993
Unearned income	1,068	834
Superannuation	931	246
Other employee benefits	353	306
Total other payables	<u>18,774</u>	<u>18,237</u>

Payables are recognised to the extent that the goods or services have been received and not paid or where payments for services have been received in advance.

Lease incentives taking the form of 'free' leasehold improvements 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

	2018	2017
<u>B4.1: Employee provisions</u>	<u>\$'000</u>	<u>\$'000</u>
Annual and long service leave provisions	63,792	66,531
Total employee provisions	63,792	66,531

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 1.9 per cent (2017: 1.5 per cent). Liabilities for long term employee benefits are discounted using the 10 year Commonwealth government bond rate of 2.6 per cent (2017: 2.5 per cent).

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.

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.

Employees 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.

B4.2: Other provisions

	Legal obligations \$'000	Surplus lease space \$'000	Onerous contracts \$'000	Total other provisions \$'000
As at 1 July 2017	-	-	532	532
Additional provisions made	384	730	-	1,114
Amounts used	-	(237)	(532)	(769)
Total as at 30 June 2018	384	493	-	877

The department currently has no onerous contracts (2017: one) and surplus lease space at one property (2017: nil).

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

C. Departmental Funding

C1: Appropriations

	2018	2017
	\$'000	\$'000
<u>C1.1: Annual appropriations ('recoverable GST exclusive')</u>		
Ordinary annual services		
Annual appropriations ¹		
Operating ²	343,882	333,539
Departmental capital budget ^{2,3}	22,784	23,281
PGPA Act section 74 receipts	22,833	17,241
PGPA Act section 75 transfers	-	(14,390)
Total appropriations - ordinary annual services	389,499	359,671
Appropriations applied (current and prior years)	394,905	361,586
Variance⁴	(5,406)	(1,915)
Other services		
Annual appropriations ¹		
Equity injection	15,779	5,985
Total appropriations - other services	15,779	5,985
Appropriations applied (current and prior years)	4,973	9,135
Variance⁵	10,806	(3,150)

¹ No amounts have been quarantined in 2017-18 (2016-17: nil).

² In the Portfolio Additional Estimates Statements 2017-18, the department received additional net departmental funding of \$11.8 million (page 12 refers). This comprised \$17.1 million of operating funding partially offset by a transfer of \$5.3 million departmental capital budget to JSB that was approved by the Minister for Finance on 18 December 2017. An interpretation of the FRR means that the transfer could not be recognised as a transfer of capital between entities in the 2017-18 financial statements, resulting in a reduction of operating appropriations of \$5.3 million.

³ Departmental capital budgets are appropriated through *Appropriation Acts (No. 1, 3, 5)*. As they are not separately identified in the Appropriation Acts, the designation of amounts appropriated as capital and operating is set out in the Portfolio Budget Statements and the Additional Estimates Statements. A reclassification of \$7.3 million of departmental capital to departmental operating expenditure in 2017-18 was approved by the Minister for Finance on 6 April 2018. As the reclassification of capital contributions are not permitted under the Australian Accounting Standards, this transfer has not been reflected in this appropriation note nor has the amount been recognised as revenue from Government in the Statement of Comprehensive Income. This amount is included as a contribution by owner in the Statement of Changes in Equity and aligns with the original designation.

⁴ The variance reflects the movement in cash at bank, appropriations receivable and GST receivable less the lapsed appropriation. Note C1.2 refers.

⁵ The variance reflects the movement in the appropriation receivable - equity injection.

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

	2018 \$'000	2017 \$'000
<u>C1.2: Unspent annual appropriations ('recoverable GST exclusive')</u>		
<i>Appropriation Act (No. 1) 2017-18</i>	38,569	-
<i>Appropriation Act (No. 2) 2017-18</i>	10,056	-
<i>Appropriation Act (No. 3) 2017-18</i>	11,809	-
<i>Appropriation Act (No. 4) 2017-18</i>	3,143	-
<i>Appropriation Act (No. 1) 2016-17</i>	-	38,424
<i>Appropriation Act (No. 2) 2016-17</i>	1,331	2,365
<i>Appropriation Act (No. 3) 2016-17</i>	-	14,484
<i>Appropriation Act (No. 4) 2016-17</i>	2,992	2,992
<i>Supply Act (No. 1) 2016-17</i>	-	1,014
<i>Supply Act (No. 2) 2016-17</i>	-	468
<i>Appropriation Act (No. 1) 2015-16</i>	-	2,622
<i>Appropriation Act (No. 4) 2015-16</i>	-	891
<i>Appropriation Act (No. 1) 2013-14¹</i>	-	68
Cash at bank	2,292	1,742
Total unspent annual appropriations	<u>70,192</u>	<u>65,070</u>

As at 30 June 2018, total unspent annual appropriations comprise: cash at bank (excluding special account) \$2.3 million and appropriation receivable \$67.9 million.

There are no quarantined appropriations at 30 June 2018.

¹ *Appropriation Act (No. 1) 2013-14* was repealed when *Appropriation Bill (No. 4) 2017-2018* received Royal Assent on 28 March 2018. The quarantined amount of \$0.068 million has been recognised as an equity return in accordance with subsection 39(1) of the FRR.

C2: Special Accounts

	Student Identifiers	Special Account ¹
Balance as at 1 July (represented by cash held in the OPA)	4,089	3,536
Increases		
Appropriations credited to special account	6,449	6,250
Total increases	<u>6,449</u>	<u>6,250</u>
Available for payments	<u>10,538</u>	<u>9,786</u>
Decreases		
Payments made	(6,449)	(5,697)
Total decreases	<u>(6,449)</u>	<u>(5,697)</u>
Balance as at 30 June (represented by cash held in the OPA)	<u>4,089</u>	<u>4,089</u>

¹ Student Identifiers Special Account

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

Establishing Instrument: *Student Identifiers Act 2014*; subsection 48(1).

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

	2018	2017
	\$'000	\$'000
Amounts applied		
Annual appropriation	17,748	5,307
Total amounts applied	<u>17,748</u>	<u>5,307</u>
Expenses		
Employee benefits	10,454	4,746
Supplier	9,180	2,192
Total expenses	<u>19,634</u>	<u>6,938</u>
External revenue		
Sale of goods and rendering of services	1,886	1,631
Total external revenue	<u>1,886</u>	<u>1,631</u>

The department undertakes regulatory charging activities relating to:

- The Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS);
- Certain programs managed by Trades Recognition Australia (TRA); and
- The VET Student Loans program (charging arrangements commenced on 1 July 2017).

Further information on the above activities is available at:

- CRICOS: www.internationaleducation.gov.au
- TRA: www.tradesrecognitionaustralia.gov.au
- VET Student Loans program: www.education.gov.au

C4: Net Cash Appropriation Arrangements

Total comprehensive surplus/(loss) less depreciation and amortisation expenses previously funded through revenue appropriations	(14,002)	2,968
Depreciation and amortisation expenses	<u>(21,332)</u>	<u>(23,979)</u>
Total comprehensive loss as per the statement of comprehensive income	<u>(35,334)</u>	<u>(21,011)</u>

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

D. Departmental Other Items

D1: Contingent Assets and Liabilities

Contingent assets and liabilities are not recognised in the statement of financial position. They may arise from uncertainty as to the existence of an asset or liability 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 2018 (2017: nil).

Unquantifiable contingencies

As at 30 June 2018, the department had unquantifiable contingent assets in respect of three litigation matters (2017: three). These contingent assets relate to costs awarded to the department, however it is not possible to estimate the amounts of any eventual receipts.

The department had no unquantifiable contingent liabilities as at 30 June 2018.

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

D2: Restructuring

Function Entity	2017	
	Shared Services Department of Employment ¹ \$'000	Shared Services Department of Finance ¹ \$'000
FUNCTIONS ASSUMED		
Assets recognised		
Trade and other receivables	751	-
Land and buildings	246	-
Infrastructure, plant and equipment	445	-
Computer software	418	-
Prepayments	125	-
Total assets recognised	1,985	-
Liabilities recognised		
Supplier	1	-
Other payables	6	-
Employee provisions	525	-
Other provisions	466	-
Total liabilities recognised	998	-
Net assets recognised	987	-
Income		
Recognised by the receiving entity	4,539	-
Recognised by the losing entity	1,293	-
Total income	5,832	-
Expenses		
Recognised by the receiving entity	7,820	-
Recognised by the losing entity	3,810	-
Total expenses	11,630	-
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 Department of Education and Training and the then Department of 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 then 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.

There were no transfers of functions in 2017-18.

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

D3: Key Management Personnel Remuneration

	2018	2017
	\$'000	\$'000
Short-term employee benefits	2,645	2,236
Post-employment benefits	421	365
Other long-term employee benefits	265	379
Termination benefits	573	-
Total key management personnel remuneration	<u>3,904</u>	<u>2,980</u>

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 eight officers occupying KMP positions during the year (2016-17: seven). This includes one officer on secondment from another agency to support the implementation of child care reform. 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 leave expense (including revaluations of leave provisions), allowances and changes in ancillary costs and probability rates on leave provisions.

Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

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 which are not included in this note.

Transactions with entities where KMP have an interest

Several of the department's KMP are members of the board of directors for a number of educational institutions and councils. During 2017-18 and 2016-17 the department purchased services from these entities in relation to the:

- Support of quality teaching and school leadership
- Collection of data, development and delivery of research studies, questionnaires and assessments.

	2018 \$'000	2017 \$'000
Expenses		
Supplier expenses	1,852	1,666
Total expenses	<u>1,852</u>	<u>1,666</u>
Payables		
Supplier payables	913	-
Total payables	<u>913</u>	<u>-</u>

All purchases were conducted under normal terms and conditions.

Details of administered related party transactions and balances associated with the above activities are separately disclosed. Note I3 refers.

D5: Budgetary Reporting

Statement of comprehensive income

In 2017-18 the department reported an operating deficit on continuing operations of \$35.3 million against a budgeted deficit of \$28.7 million as reported in the 2017-18 Portfolio Budget Statements^{1,2}.

The department's total expenses of \$411.7 million were \$28.5 million more than originally budgeted and includes an increase in expense associated with the work that started on 1 November 2017 under the Family Day Care Payment Integrity measure, which was published in the Mid-year Economic and Fiscal Outlook 2017-18.

Supplier and grants expense are not separately classified in the Portfolio Budget Statements. When these two expense items are taken together, they total \$154.3 million, a minor 0.7 per cent variance to the budget.

The department incurred depreciation and amortisation expense of \$21.3 million, \$7.4 million less than the original budget estimate. The budget estimates were revised down during the course of the year³ to reflect the transfer of assets to the Department of Finance and the then Department of Employment following the change to shared service arrangements on 1 December 2016. Further, the annual assessment of computer software assets resulted in a change to the estimated useful lives of some assets including the write-off of the Australian Apprenticeship Management System. This had the effect of reducing amortisation expense and increasing write-down and impairment 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 2017. As a consequence the budgeted opening balance as at 1 July 2017 needed to be estimated. Accordingly, variances to budget can at least in part, be attributed to the prior year results.

³ Revised estimates are published in the Portfolio Additional Estimates Statements 2017-18.

Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The department reported own source income of \$26.1 million, \$3.6 million more than originally budgeted.

Sales of goods and services and rental income are not separately classified in the Portfolio Budget Statements. When taken together they total \$17.5 million, \$1.8 million greater than the original budget. This variance primarily reflects an increase in sub-lease rental income received from other Government entities sharing the department's office space.

Resources received free of charge was \$1.7 million greater than budget which primarily reflects higher than anticipated receipt collection services provided free of charge by the Australian Taxation Office.

Revenue from Government totalled \$350.3 million in 2017-18, \$18.2 million more than originally budgeted. Additional operating funding totalling \$11.8 million was provided through additional estimates for new measures, primarily the Family Day Care Payment Integrity measure.

Statement of financial position

As at 30 June 2018 the department's total equity was \$64.7 million compared to the original budget of \$108.0 million¹.

The original 2017-18 budget was prepared based on 30 June 2016 data being the latest available at that time¹. This decrease of \$43.3 million therefore still reflects, and is predominantly driven by, the transfer of assets and liabilities following the machinery of government announcement on 1 December 2016. All balance sheet items, as at 30 June 2017, with the exception of cash, were impacted by this transfer.

Statement of changes in equity

The original budget was published in May 2017. As a consequence the budgeted opening balance as at 1 July 2017 needed to be estimated. The difference between that estimate and the actual opening balance at 1 July 2017 is almost entirely reflected in the variance to budget seen in the closing equity balance. This movement resulted primarily from the transfer of assets following the change to shared service arrangements as previously described.

Equity injection – appropriations exceeded budget due to additional funding of \$3.1 million provided through additional estimates for new measures.

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 original budget was published in May 2017. As a consequence the budgeted opening balance as at 1 July 2017 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

E. Departmental Managing Uncertainties

E1: Financial Instruments

	2018	2017
	\$'000	\$'000
<u>E1.1: Categories of Financial instruments</u>		
Financial assets		
Loans and receivables		
Cash and cash equivalents	6,381	5,831
Goods and services receivable	3,340	1,577
Accrued revenue	199	4,183
Total financial assets	<u>9,920</u>	<u>11,591</u>
Financial liabilities measured at amortised cost		
Trade creditors and accruals	<u>17,082</u>	<u>27,440</u>
Total financial liabilities measured at amortised cost	<u>17,082</u>	<u>27,440</u>

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

E1.2: Net gains or losses on financial assets

Impairment of receivables - goods and services	<u>1</u>	<u>316</u>
Net losses on financial assets	<u>1</u>	<u>316</u>

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

E2: 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				Valuation technique ³	Inputs used
	2018 \$'000	2017 \$'000	Level ²		
Non-financial assets					
Land	-	170	2	Market	Adjusted market transactions
Buildings	-	221	2	Market	Adjusted market transactions
Leasehold improvements	32,659	32,951	3	Depreciated replacement	Replacement cost new Useful life and consumed economic cost benefit / obsolescence of asset
Leasehold improvements - under construction	158	2,442	2	Replacement cost	Current prices relevant to the location of the asset
Infrastructure, plant and equipment	374	429	2	Market	Adjusted market transactions
Infrastructure, plant and equipment	69	78	3	Depreciated replacement	Replacement cost new Useful life and consumed economic cost benefit / obsolescence of asset
Infrastructure, plant and equipment	394	598	3	Market	Adjusted market transactions
Total¹	33,654	36,889			

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

² There has been no transfer between levels during the period.

³ The methods and valuation techniques used for the purpose of measuring fair value of assets in 2018 are unchanged from the previous reporting period.

Department of Education and Training
ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the period ended 30 June 2018

		2018	2017	2018
	Notes	\$'000	\$'000	Original Budget ¹ \$'000
NET COST OF SERVICES				
EXPENSES				
Supplier	F1.1	661,746	675,657	726,376
Subsidies	F1.2	408,279	416,764	406,266
Personal benefits	F1.3	7,023,785	7,342,692	7,622,938
Grants	F1.4	28,424,953	26,698,895	28,428,781
Interest	F1.5	195,000	194,000	555,497
Write-down and impairment of assets	F1.6	125,185	73,881	60
Payments to corporate Commonwealth entities		16,318	19,891	19,567
Fair value losses	F1.7	1,027,807	6,060,445	1,704,706
Act of grace payments		5,249	2,091	-
Total expenses		<u>37,888,322</u>	<u>41,484,316</u>	<u>39,464,191</u>
INCOME				
Revenue				
Taxation revenue				
Levies		6,135	9,774	10,431
Total taxation revenue		<u>6,135</u>	<u>9,774</u>	<u>10,431</u>
Non-taxation revenue				
Interest	F2.1	567,469	503,048	1,657,366
Other revenue	F2.2	277,346	399,397	617,715
Total non-taxation revenue		<u>844,815</u>	<u>902,445</u>	<u>2,275,081</u>
Total revenue		<u>850,950</u>	<u>912,219</u>	<u>2,285,512</u>
Gains				
Fair value gains	F2.3	-	402,418	-
Reversal of previous asset write-downs and impairment	F2.4	562	675	-
Total gains		<u>562</u>	<u>403,093</u>	<u>-</u>
Total income		<u>851,512</u>	<u>1,315,312</u>	<u>2,285,512</u>
Net cost of services		<u>37,036,810</u>	<u>40,169,004</u>	<u>37,178,679</u>
Deficit		<u>(37,036,810)</u>	<u>(40,169,004)</u>	<u>(37,178,679)</u>
OTHER COMPREHENSIVE INCOME				
Change in asset revaluation reserve	G1.3	385,055	220,047	-
Total other comprehensive income		<u>385,055</u>	<u>220,047</u>	<u>-</u>
Total comprehensive loss		<u>(36,651,755)</u>	<u>(39,948,957)</u>	<u>(37,178,679)</u>

¹Budget reported in the 2017-18 Portfolio Budget Statements published on 5 May 2017.

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

Department of Education and Training
ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES
as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000	2018 Original Budget ¹ \$'000
ASSETS				
Financial assets				
Cash and cash equivalents	G1.1	90,736	85,478	-
Receivables	G1.2	41,051,129	37,122,775	53,016,712
Investments	G1.3	2,683,465	2,338,384	2,118,936
Total financial assets		43,825,330	39,546,637	55,135,648
Total assets administered on behalf of Government		43,825,330	39,546,637	55,135,648
LIABILITIES				
Payables				
Trade creditors and accruals	G2.1	133,122	95,137	67,855
Personal benefits		129,617	117,778	103,830
Grants	G2.2	4,600	13,744	20,679
Statutory payable		18,706	15,195	32,796
Total payables		286,045	241,854	225,160
Provisions				
Personal benefits	G3	911,569	979,439	1,010,912
Higher education superannuation program	G3	6,517,000	6,467,000	6,626,301
Total provisions		7,428,569	7,446,439	7,637,213
Total liabilities administered on behalf of Government		7,714,614	7,688,293	7,862,373
Net assets		36,110,716	31,858,344	47,273,275

¹Budget reported in the 2017-18 Portfolio Budget Statements published on 5 May 2017.

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

Department of Education and Training
ADMINISTERED RECONCILIATION SCHEDULE
for the period ended 30 June 2018

	2018	2017
	\$'000	\$'000
Opening assets less liabilities as at 1 July	31,858,344	31,981,945
Net cost of services		
Income	851,512	1,315,312
Expenses		
Other than corporate Commonwealth entities	(37,872,004)	(41,464,425)
Corporate Commonwealth entities	(16,318)	(19,891)
Other comprehensive income		
Revaluations transferred to reserves	385,055	220,047
Transfers (to) from the Australian Government		
Appropriation transfers from the OPA		
Annual appropriations		
Payments to entities other than corporate Commonwealth entities	1,831,662	1,640,366
Payments to corporate Commonwealth entities	16,318	19,891
Special appropriations (unlimited)		
Payments to entities other than corporate Commonwealth entities	41,863,267	40,935,029
Appropriation transfers to the OPA		
Transfers to the OPA	(2,728,152)	(2,736,866)
Transfers to the OPA (withholdings)	(29,576)	(30,318)
Restructuring	(39,974)	-
Other movements	(9,418)	(2,746)
Closing assets less liabilities as at 30 June	<u>36,110,716</u>	<u>31,858,344</u>

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 2018

	Notes	2018 \$'000	2017 \$'000
OPERATING ACTIVITIES			
Cash received			
Interest		43	44
Net GST received		1,203,735	1,176,776
Levies		6,135	9,774
Other revenue		143,916	149,116
Total cash received		<u>1,353,829</u>	<u>1,335,710</u>
Cash used			
Suppliers		680,873	779,784
Subsidies		408,279	416,764
Personal benefits		7,093,192	7,266,842
Grants		29,920,666	28,132,663
Payments to corporate Commonwealth entities		16,318	19,891
Total cash used		<u>38,119,328</u>	<u>36,615,944</u>
Net cash used by operating activities		<u>(36,765,499)</u>	<u>(35,280,234)</u>
INVESTING ACTIVITIES			
Cash received			
Repayments of loans		2,695,488	2,388,159
Total cash received		<u>2,695,488</u>	<u>2,388,159</u>
Cash used			
Loans provided		6,906,783	6,995,987
Total cash used		<u>6,906,783</u>	<u>6,995,987</u>
Net cash used by investing activities		<u>(4,211,295)</u>	<u>(4,607,828)</u>
Net decrease in cash held		<u>(40,976,794)</u>	<u>(39,888,062)</u>
Cash from the Official Public Account			
Appropriations		43,711,247	42,595,286
GST appropriations		1,218,512	1,169,788
Special accounts		25,833	36,536
Total cash from the Official Public Account		<u>44,955,592</u>	<u>43,801,610</u>
Cash to the Official Public Account			
Administered Receipts		(2,728,152)	(2,657,925)
Return of GST appropriations		(1,214,295)	(1,192,314)
Special accounts		(31,093)	(49,923)
Total cash to the Official Public Account		<u>(3,973,540)</u>	<u>(3,900,162)</u>
Cash and cash equivalents at the beginning of the reporting period		<u>85,478</u>	<u>72,092</u>
Cash and cash equivalents at the end of the reporting period	G1.1	<u>90,736</u>	<u>85,478</u>

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

F. Administered Financial Performance

F1: Expenses

	2018	2017
<u>F1.1: Supplier</u>	\$'000	\$'000
Services rendered		
Assistance to families with children	74,596	56,232
General research	174	226
Higher education	19,701	9,747
School education - specific funding	66,407	47,229
Vocational and industry training	500,738	562,142
Total services rendered	<u>661,616</u>	<u>675,576</u>
Other supplier expenses		
Operating lease rentals	130	81
Total other supplier expenses	<u>130</u>	<u>81</u>
Total supplier expenses	<u>661,746</u>	<u>675,657</u>
Operating lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases (including GST)		
Within 1 year	98	89
Between 1 to 5 years	402	454
More than 5 years	979	799
Total operating lease commitments	<u>1,479</u>	<u>1,342</u>
The above commitments include lease arrangements with another government agency.		
<u>F1.2: Subsidies</u>		
Vocational and industry training	350,512	361,766
Assistance to families with children	57,767	54,998
Total subsidies	<u>408,279</u>	<u>416,764</u>
<u>F1.3: Personal benefits</u>		
Assistance to families with children	6,994,639	7,296,879
Trade support loans discount	26,681	22,571
Student assistance	-	20,524
Vocational and industry training	2,465	2,718
Total personal benefits	<u>7,023,785</u>	<u>7,342,692</u>

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

	2018	2017
	\$'000	\$'000
<u>F1.4: Grants</u>		
Public sector		
Australian Government entities	34,318	44,156
State and Territory Governments	18,357,384	17,090,700
Private sector		
Non-profit organisations	141,770	143,896
Multi-jurisdictional sector	9,651,391	9,208,019
Other	240,090	212,124
Total grants	<u>28,424,953</u>	<u>26,698,895</u>
<u>F1.5: Interest</u>		
Higher education superannuation program	<u>195,000</u>	<u>194,000</u>
Total interest	<u>195,000</u>	<u>194,000</u>
<u>F1.6: Write-down and impairment of assets</u>		
Impairment of goods and services receivable	57,087	70,646
Impairment of personal benefits receivable	<u>68,098</u>	<u>3,235</u>
Total write-down and impairment of assets	<u>125,185</u>	<u>73,881</u>
<u>F1.7: Fair value losses</u>		
Higher education loans	813,880	6,050,278
Higher education superannuation program	184,786	-
Trade support loans	<u>29,141</u>	<u>10,167</u>
Total fair value losses	<u>1,027,807</u>	<u>6,060,445</u>

Changes in the fair value of the higher education loans, the higher education superannuation program and the trade support loans are brought to account through the administered schedule of comprehensive income. Fair value gains are disclosed at note F2.3. Further information regarding fair value estimation of these balances is provided in the overview.

As at 30 June 2018, the Australian Government Actuary estimated the fair value of the higher education loans to be \$39.9 billion (note G1.2 refers). This balance takes into account new loans and repayments made during 2017-18, unwinding of discount and a fair value loss totalling \$0.8 billion. The main factors contributing to this fair value loss are: \$1.4 billion of debt not expected to be recovered on new loans due to the income contingent nature of the program, plus \$0.2 billion concessional loan discount and \$0.4 billion adjustment for the actuarial estimate of new debt and repayments that have not been credited against individuals, partially offset by a movement in the yield curve, \$1.2 billion.

As at 30 June 2018, the Australian Government Actuary estimated the fair value of the higher education superannuation program provision to be \$6.5 billion (note G3 refers). The higher education superannuation program provision is subject to an annual actuarial assessment. The 2018 actuarial assessment applied an interest rate of 2.7% (2017: 3.0%).

As at 30 June 2018, the Australian Government Actuary estimated the fair value of the trade support loan scheme to be \$420.3 million (note G1.2 refers). This balance takes into account new loans and repayments made during 2017-18, unwinding of discount and a fair value loss of \$29.1 million. The main factors contributing to this fair value loss are: \$20.0 million of debt not expected to be recovered on new loans due to the income contingent nature of the program and \$9.1 million adjustment for changes in the discount rate, the deferral adjustment and indexation.

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

F2: Income

	2018	2017
	\$'000	\$'000
F2.1: Interest		
Higher education loans	560,363	499,036
Trade support loans	7,063	3,968
Other sources	43	44
Total interest	<u>567,469</u>	<u>503,048</u>

F2.2: Other revenue

Loan fee revenue	168,551	276,131
Refunds of prior year payments	22,708	51,623
Education investment fund special account	-	22,593
Other special accounts	17,278	18,370
Cost recovery	17,211	11,552
Other	51,598	19,128
Total other revenue	<u>277,346</u>	<u>399,397</u>

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 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.

F2.3: Fair value gains

Higher education superannuation program	-	402,418
Total fair value gains	<u>-</u>	<u>402,418</u>

Further information regarding fair value estimation of this balance is provided in the overview and at note F1.7.

F2.4: Reversal of previous asset write-downs and impairment

Reversal of impairment losses for goods and services receivable	562	675
Total reversal of previous asset write-downs and impairment	<u>562</u>	<u>675</u>

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

G. Administered Financial Position

G1: Financial Assets

	2018	2017
	\$'000	\$'000
G1.1: Cash and cash equivalents		
Cash held in the OPA - special accounts	90,736	85,478
Total cash and cash equivalents	90,736	85,478
G1.2: Receivables		
Goods and services receivable		
Goods and services receivable	186,328	198,618
Total goods and services receivable	186,328	198,618
Advances and loans		
Higher education loans	39,856,123	35,916,286
Trade support loans	420,333	282,520
Child care loans	66	145
Total advances and loans	40,276,522	36,198,951
Other receivables		
GST receivable from the Australian Taxation Office	20,603	18,435
Higher education superannuation program receivable	352,000	372,000
Personal benefits receivable	439,211	434,206
Total other receivables	811,814	824,641
Total receivables (gross)	41,274,664	37,222,210
Less impairment allowance		
Goods and services receivable	(130,733)	(78,491)
Personal benefits receivable	(92,802)	(20,944)
Total impairment allowance	(223,535)	(99,435)
Total receivables (net)	41,051,129	37,122,775

Goods and services receivable are with entities external to the Australian Government. Credit terms are payment within 30 days (2017: 30 days).

Movements in impairment allowance

	Goods and services 2018 \$'000	Goods and services 2017 \$'000	Personal benefits 2018 \$'000	Personal benefits 2017 \$'000
Opening balance as at 1 July	(78,491)	(11,557)	(20,944)	(17,709)
Amounts written off against the provision	13	2,688	-	276
Amounts recovered and reversed	43	558	-	5
Reversal of previous impairment	519	112	-	-
Movement	3,760	-	(3,760)	-
Increase recognised in net cost of services	(56,577)	(70,292)	(68,098)	(3,516)
Closing balance as at 30 June	(130,733)	(78,491)	(92,802)	(20,944)

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

	2018	2017
	\$'000	\$'000
Concessional loans		
Higher education loans		
Nominal value	60,039,891	55,424,526
Unexpired discount	(408,099)	(1,019,462)
Impairment	<u>(19,775,669)</u>	<u>(18,488,778)</u>
Carrying amount	<u>39,856,123</u>	<u>35,916,286</u>
Trade support loans		
Nominal value	538,903	363,052
Unexpired discount and discount on completion (new loans)	(53,609)	(38,386)
Impairment	(59,112)	(42,146)
Deferral adjustment	<u>(5,849)</u>	<u>-</u>
Carrying amount	<u>420,333</u>	<u>282,520</u>
Child care loans		
Nominal value	<u>66</u>	<u>145</u>
Carrying amount	<u>66</u>	<u>145</u>
Total concessional loans	<u><u>40,276,522</u></u>	<u><u>36,198,951</u></u>

G1.3: Investments

Australian Institute for Teaching and School Leadership	6,306	4,695
Australian Curriculum, Assessment and Reporting Authority	1,934	1,792
Australian National University	2,675,225	2,295,141
Australian Institute of Aboriginal and Torres Strait Islander Studies	<u>-</u>	<u>36,756</u>
Total investments	<u><u>2,683,465</u></u>	<u><u>2,338,384</u></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 2017-18 the increase was \$385.1 million (2016-17: \$220.0 million).

The Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) transferred from the Education and Training portfolio to the Prime Minister and Cabinet portfolio following the Administrative Arrangements Order of 19 April 2018. The net assets of AIATSIS were \$40 million as at the date of transfer, being 30 April 2018.

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

G2: Payables

G2.1: Trade creditors and accruals

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

	2018	2017
	\$'000	\$'000
G2.2: Grants		
Public sector		
State and Territory Governments	-	4,936
Private sector		
Non-profit organisations	-	251
Other	4,600	8,557
Total grants	<u>4,600</u>	<u>13,744</u>

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

G3: Provisions

	HESP 2018 \$'000	HESP 2017 \$'000	Personal benefits 2018 \$'000	Personal benefits 2017 \$'000
Opening balance as at 1 July	6,467,000	6,959,011	979,439	872,819
Amounts used	(334,757)	(289,443)	(762,338)	(757,075)
Increase (decrease) recognised in net cost of services	384,757	(202,568)	694,468	863,695
Total as at 30 June	<u>6,517,000</u>	<u>6,467,000</u>	<u>911,569</u>	<u>979,439</u>

Higher education superannuation program (HESP)

As at 30 June 2018, 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 2.7 per cent (2017: 3.0 per cent) based upon the 2030 Government bond rate. The actuary estimated that approximately \$0.4 billion (2017: \$0.4 billion) is recoverable from the States, note G1.2 refers. A fair value loss of \$0.2 billion is reported at note F1.7 (2016-17: \$0.4 billion fair value gain, note F2.3 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).

Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Personal benefits

The department administers personal benefit programs on behalf of the government that provide entitlements to individuals, mostly to provide child care fee assistance. Payments are determined in accordance with provisions under social security law and other legislation.

The department made child care fee assistance 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. These payments were 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 department oversees a comprehensive risk management strategy which minimises the potential for incorrect payment by subjecting recipients and customers to a variety of review processes.

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

H. Administered Funding

H1: Appropriations

	2018	2017
<u>H1.1: Annual appropriations ('recoverable GST exclusive')</u>	\$'000	\$'000
Ordinary annual services		
Annual appropriations		
Operating	2,078,106	1,879,988
Payments to corporate Commonwealth entities	19,493	19,817
PGPA Act section 75 transfers	(3,249)	-
Total appropriations - ordinary annual services	2,094,350	1,899,805
Appropriations applied (current and prior years)	1,810,219	1,603,460
Variance	284,131	296,345
Other services		
Annual appropriations		
States, ACT, NT and local government	40,221	42,686
Payments to corporate Commonwealth entities	74	74
Total appropriations - other services	40,295	42,760
Appropriations applied (current and prior years)	37,756	41,241
Variance	2,539	1,519
<u>H1.2: Unspent annual appropriations ('recoverable GST exclusive')</u>		
<i>Appropriation Act (No. 1) 2017-18</i>	204,938	-
<i>Appropriation Act (No. 3) 2017-18</i>	13,549	-
<i>Appropriation Act (No. 4) 2017-18</i>	4,058	-
<i>Appropriation Act (No. 5) 2017-18</i>	167,104	-
<i>Appropriation Act (No. 1) 2016-17¹</i>	273,435	374,894
<i>Appropriation Act (No. 2) 2016-17</i>	-	1,519
<i>Appropriation Act (No. 1) 2015-16²</i>	543,924	543,924
<i>Appropriation Act (No. 2) 2015-16²</i>	3,243	3,243
<i>Appropriation Act (No. 1) 2014-15³</i>	-	268,354
<i>Appropriation Act (No. 3) 2014-15³</i>	-	14,836
<i>Appropriation Act (No. 2) 2014-15³</i>	-	2,257
<i>Appropriation Act (No. 1) 2013-14³</i>	-	110
<i>Appropriation Act (No. 3) 2013-14³</i>	-	8,144
Total unspent annual appropriations	1,210,251	1,217,281

¹ The balance is legally available until 1 July 2020 and represents permanent quarantines.

² These balances are legally available until 1 July 2018 and represent permanent quarantines.

³ These balances were repealed during 2017-18 and are no longer available.

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

	2018	2017
<u>H1.3: Special appropriations applied ('recoverable GST exclusive')</u>	\$'000	\$'000
<i>A New Tax System (Family Assistance) (Administration) Act 1999</i>	7,066,549	7,201,756
<i>Australian Education Act 2013</i>	18,321,450	17,039,994
<i>Higher Education Support Act 2003, section 238-12</i>	16,020,699	16,324,974
<i>Trade Support Loans Act 2014, section 104</i>	255,460	173,175
<i>VET Student Loans Act 2016, section 11</i>	199,083	40,688
<i>Public Governance, Performance and Accountability Act 2013, section 77</i>	26	-
Total special appropriations applied	<u>41,863,267</u>	<u>40,780,587</u>

H1.4: Disclosure by agent in relation to annual and special appropriations ('recoverable GST exclusive')

The department had drawing rights for the Department of Foreign Affairs and Trade administered annual appropriation for the New Colombo Plan program. The payments in relation to this program in 2017-18 were \$48.2 million (2016-17: \$26.5 million).

H2: Special Accounts

	EIF Research Portfolio Special Account ¹		EIF Education Portfolio Special Account ²	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Balance as at 1 July (represented by cash held in the OPA)	-	-	-	-
Increases				
Appropriation credited to special account	-	-	-	22,593
Total increases	-	-	-	22,593
Available for payments	-	-	-	22,593
Decreases				
Payments made	-	-	-	(22,593)
Total decreases	-	-	-	(22,593)
Balance as at 30 June (represented by cash held in the OPA)	-	-	-	-

¹ EIF (Education Investment Fund) Research Portfolio Special Account

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

Establishing Instrument: *Nation-building Funds Act 2008*, section 188.

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 2017-18 or the prior year. Legislation to close the EIF was passed through the House of Representatives on 25 October 2017 and is currently awaiting Senate debate.

² EIF (Education Investment Fund) Education Portfolio Special Account

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

Establishing Instrument: *Nation-building Funds Act 2008*, section 181.

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

There have been no transactions through this special account in 2017-18. Legislation to close the EIF was passed through the House of Representatives on 25 October 2017 and is currently awaiting Senate debate.

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

	Growth Fund Skills and Training Special Account 2015 ³		Early Years Quality Fund Special Account ⁴	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Balance as at 1 July (represented by cash held in the OPA)	16,013	4,757	32,624	34,039
Increases				
Appropriation credited to special account	5,249	2,091	-	-
Receipts	12,778	15,150	9,657	854
Total increases	18,027	17,241	9,657	854
Available for payments	34,040	21,998	42,281	34,893
Decreases				
Payments made	(24,368)	(5,985)	(138)	(2,269)
Total decreases	(24,368)	(5,985)	(138)	(2,269)
Balance as at 30 June (represented by cash held in the OPA)	9,672	16,013	42,143	32,624

³ Growth Fund Skills and Training Special Account 2015

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

Establishing Instrument: *PGPA Act (Growth Fund Skills and Training Special Account 2015 – Establishment) Determination 2015/04*, section 5.

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.

⁴ 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*, section 5.

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.

As at 30 June 2018 \$30.0 million has been quarantined pending return to the Official Public Account.

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

	Overseas Student Tuition Fund ⁵		Services for Other Entities and Trust Moneys ⁶	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Balance as at 1 July (represented by cash held in the OPA)	34,579	28,167	2,260	5,125
Increases				
Receipts	6,474	9,756	2,184	1,570
Total increases	<u>6,474</u>	<u>9,756</u>	<u>2,184</u>	<u>1,570</u>
Available for payments	<u>41,053</u>	<u>37,923</u>	<u>4,444</u>	<u>6,695</u>
Decreases				
Payments made	(4,163)	(3,344)	(2,413)	(4,435)
Total decreases	<u>(4,163)</u>	<u>(3,344)</u>	<u>(2,413)</u>	<u>(4,435)</u>
Balance as at 30 June (represented by cash held in the OPA)	<u>36,890</u>	<u>34,579</u>	<u>2,031</u>	<u>2,260</u>

⁵ Overseas Student Tuition Fund

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

Establishing Instrument: *Education Services for Overseas Students Act 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.

⁶ 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 to establish the Department of Education, Employment and Workplace Relations Services for Other Entities and Trust Moneys Special Account*, section 3.

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.

The special account is due to sunset on 1 October 2018. The establishment of a new Services for Other Entities and Trust Moneys (SOETM) special account has been requested to replace the sunset account. The balance of the sunset account will transfer to the new account.

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

H3: Regulatory Charging

	2018	2017
	\$'000	\$'000
Expenses		
Supplier	2,116	1,327
Total expenses	2,116	1,327
External revenue		
Cost recovery	17,173	11,552
Total external revenue	17,173	11,552
Amounts written off	1	-

The department undertakes regulatory charging activities relating to:

- The Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS);
- Certain programs managed by Trades Recognition Australia (TRA); and
- The VET Student Loans program (charging arrangements commenced on 1 July 2017).

Further information on the above activities is available at:

- CRICOS: www.internationaleducation.gov.au
- TRA: www.tradesrecognitionaustralia.gov.au
- VET Student Loans program: www.education.gov.au.

I. Administered Other Items

I1: Contingent Assets and Liabilities

Contingent assets and liabilities are not recognised in the administered schedule of assets and liabilities. They may arise from uncertainty as to the existence of an asset or liability 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

There were no administered quantifiable contingent assets or liabilities as at 30 June 2018 (2017: 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

I2: Restructuring

	2018
Function	AIATSIS
Entity	Department of the Prime Minister and Cabinet \$'000
FUNCTIONS RELINQUISHED	
Assets relinquished	
Investment	(39,974)
Total assets relinquished	<u>(39,974)</u>
Net assets relinquished	<u><u>(39,974)</u></u>

The Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) transferred from the Education and Training portfolio to the Prime Minister and Cabinet portfolio following the Administrative Arrangements Order of 19 April 2018. The investment relinquished is represented by the net assets of AIATSIS as at the date of transfer, 30 April 2018.

There were no transfers of administered functions in 2016-17.

I3: Related Party Disclosures

Related party disclosures and departmental transactions and balances are provided at notes D3 and D4.

During 2017-18 and 2016-17 administered transactions with related parties included payments and grants made in relation to:

- 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.

	2018	2017
	\$'000	\$'000
Expenses		
Supplier expenses	3,781	1,143
Grant expenses	33,905	35,213
Total expenses	<u>37,686</u>	<u>36,356</u>
Payables		
Supplier payables	927	216
Total Payables	<u>927</u>	<u>216</u>

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

I4: Budgetary Reporting

Administered schedule of comprehensive income

In 2017-18 the department administered \$37.9 billion of expenses on behalf of the government, of which, \$28.4 billion (75 per cent) represented grants primarily to schools and higher education facilities which were delivered in accordance with the original budget estimate.

During 2017-18 the department administered \$7.0 billion of personal benefits against a budget of \$7.6 billion. The difference can be attributed to the impact of child care compliance measures and lower fee growth than originally estimated.

At the time the budget was prepared the fair values of the higher education superannuation provision, higher education loans and trade support loans were estimated on 2015-16 data and actuarial assumptions. The actual fair value at 30 June 2018 is based upon updated data, any changes in the actuary's assessment and the Government bond rates used to discount future cash flows. This impacts on the amount recognised as fair value gains or losses, interest expense, loan fee revenue and interest revenue.

Payments to corporate Commonwealth entities were \$16.3 million in 2017-18 compared to the original budget of \$19.6 million. AIATSIS transferred from the Education and Training portfolio to the Prime and Cabinet portfolio on 30 April 2018. Accordingly, payments for the remainder of the year were processed by the Department of the Prime Minister and Cabinet. The estimates were revised during the course of the year¹.

In 2017-18 the department administered revenue totalling \$0.9 billion compared to a budget of \$2.3 billion. This variance was predominantly driven by changes in actuarial assumptions reducing the amount of interest revenue on higher education loans as compared to budget.

Movements in administered investments, write-downs and impairments 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 2018 assets administered on behalf of government totalled \$43.8 billion compared to an original budget of \$55.1 billion².

The actual value of the receivables at 30 June are impacted by updated data, any changes resulting from the actuary's assessment and the Government bond rates as previously described.

Administered investments have increased by \$345.1 million during the year and are valued at \$2.7 billion at 30 June 2018 compared to the original budget of \$2.1 billion². The estimates were revised during the course of the year to \$2.3 billion to reflect the transfer of AIATSIS to the Prime Minister and Cabinet portfolio^{1,3}. The remaining variance predominantly reflects an increase in the net assets of the Australian National University as at 30 June 2018.

As at 30 June 2018, payables total \$286.0 million, \$60.8 million more than the budget of \$225.2 million. The value of invoices on hand at the end of the financial year are by nature difficult to predict with the estimates being based upon previous years' averages.

As at 30 June 2018, provisions totalled \$7.4 billion compared to a budget of \$7.6 billion, a variance of 2.7 per cent. Again, given the timing of the original budget the movement can in part be attributed to prior year results. The personal benefit provision was statistically estimated at \$1.0 billion compared to an actual closing balance of \$0.9 billion. The decrease is consistent with the trend in personal benefits expense.

The 30 June 2018 provision for the higher education superannuation program was assessed by the Australian Government Actuary at \$6.5 billion against an original budget of \$6.6 billion, a minor variance of 1.7 per cent.

¹ Estimated actuals are published in the Portfolio Budget Statements 2018-19.

² The original budget was published in May 2017. As a consequence the budgeted opening balance as at 1 July 2017 needed to be estimated. Accordingly, variances to budget can at least in part, be attributed to the prior year results.

³ Revised estimates are published in the Portfolio Additional Estimates Statements 2017-18.

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

J. Administered Managing Uncertainties

J1: Financial Instruments

<u>J1.1: Categories of financial instruments</u>	2018 \$'000	2017 \$'000
FINANCIAL ASSETS		
Financial assets at fair value through other comprehensive income		
Investments	2,683,465	2,338,384
Total financial assets at fair value through other comprehensive income	2,683,465	2,338,384
Loans and receivables		
Cash and cash equivalents	90,736	85,478
Goods and services receivable	55,595	120,127
Total loans and receivables	146,331	205,605
Financial assets at fair value through profit or loss (designated)		
Concessional loans		
Higher education loans	39,856,123	35,916,286
Trade support loans	420,333	282,520
Child care loans	66	145
Total financial assets at fair value through profit or loss (designated)	40,276,522	36,198,951
Total financial assets categorised as financial instruments	43,106,318	38,742,940
FINANCIAL LIABILITIES		
Financial liabilities measured at amortised cost		
Trade creditors and accruals	133,122	95,137
Grants payable	4,600	13,744
Total financial liabilities measured at amortised cost	137,722	108,881
Total financial liabilities	137,722	108,881
<u>J1.2: Net gains or losses on financial assets</u>		
Financial assets at fair value through other comprehensive income		
Gains recognised in equity	385,055	220,047
Net gains from financial assets at fair value through other comprehensive income	385,055	220,047
Loans and receivables		
Interest revenue	43	44
Reversal of impairment - goods and services receivable	562	675
Write-down and impairment	(57,087)	(70,646)
Net losses from loans and receivables	(56,482)	(69,927)
Financial assets at fair value through profit or loss (designated)		
Interest revenue	567,426	503,004
Loan fee revenue	168,551	275,792
Trade support loan discount	(26,681)	(22,571)
Fair value losses	(843,021)	(6,060,445)
Net losses at fair value through profit or loss (designated)	(133,725)	(5,304,220)
Net gains (losses) on financial assets	194,848	(5,154,100)

Department of Education and Training

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

J1.3: 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 G1.3 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 G1.2 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 F1.7 refers.

Credit quality of financial assets not past due or individually determined as impaired	Not past	Past due	Not past	Past due or
	due nor	or	due nor	impaired
	impaired	impaired	impaired	impaired
	2018	2018	2017	2017
	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value through other comprehensive income				
Investments	2,683,465	-	2,338,384	-
Loans and receivables				
Cash and cash equivalents	90,736	-	85,478	-
Goods and services receivable	55,595	130,733	42,420	156,198
Fair value through profit or loss (designated)				
Concessional loans				
Higher education loans	39,856,123	-	35,916,286	-
Trade support loans	420,333	-	282,520	-
Child care loans	66	-	145	-
Total	43,106,318	130,733	38,665,233	156,198

Ageing of financial assets that were past due but not impaired as at 30 June	0 to 30	31 to 60	61 to 90	90+	Total
	days	days	days	days	
	\$'000	\$'000	\$'000	\$'000	
Goods and services receivable 2018	42,041	1,713	139	1,394	45,287
Goods and services receivable 2017	58,569	1,219	4,159	13,760	77,707

J1.4: 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.

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

J2: Fair Value

J2.1: Fair value measurement of level 2 and 3 financial instruments

Fair value measurement as at 30 June					
	2018	2017		Valuation	Inputs used
	\$'000	\$'000	Level ²	technique ³	
Financial assets					
Concessional loans					
Higher education loans	39,856,123	35,916,286	3	Loan conditions	Principal due
Trade support loans	420,333	282,520	3	Loan conditions	Principal due
Child care loans	66	145	3	Loan conditions	Principal due
Investments	2,683,465	2,338,384	3	Net assets of the entity	Net assets of the entity
Total¹	42,959,987	38,537,335			

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

² There has been no transfer between levels during the period.

³ The methods and valuation techniques used for the purpose of measuring fair value of assets in 2018 are unchanged from the previous reporting period.

J2.2: Movement in level 2 and 3 fair value measurement

	Financial assets			
	Concessional loans		Investments	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
As at 1 July	36,198,951	36,953,923	2,338,384	2,118,337
Total losses recognised in net cost of services	(133,724)	(5,304,220)	-	-
Total gains recognised in comprehensive income	-	-	385,055	220,047
Total losses recognised in administered equity	-	-	(39,974)	-
Issues	6,906,783	6,995,987	-	-
Settlements	(2,695,488)	(2,446,739)	-	-
As at 30 June	40,276,522	36,198,951	2,683,465	2,338,384