

## INSOLVENCY AND TRUSTEE SERVICE AUSTRALIA

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## INSOLVENCY AND TRUSTEE SERVICE AUSTRALIA

### Section 1: Agency overview

Insolvency Trustee Service Australia's (ITSA) purpose is to provide a personal insolvency system that produces equitable outcomes for debtors and creditors, enjoys public confidence and minimises the impact of financial failure on the community.

ITSA's role is to:

- operate the bankruptcy registry, where debtors petitions are lodged, debt agreement proposals are processed and public records on insolvency are maintained
- exercise Official Receiver powers to assist trustees to obtain information and recover property
- investigate possible offences under the *Bankruptcy Act 1966* and prepare briefs of evidence for prosecution
- provide information about bankruptcy and its alternatives
- regulate the administrations and activity of trustees (including the Official Trustee) and debt agreement administrators, and license private trustees
- administer, as the Official Trustee, personal bankruptcies and Part IX debt agreements and Part X agreements when private bankruptcy trustees or other administrators are not appointed
- advise Government on appropriate legislative reform to the Bankruptcy Act and related legislation, and
- act as a special trustee for Government agencies, pursuant to court orders, particularly by locating, controlling and selling property under the *Proceeds of Crime Act 1987*, *Proceeds of Crime Act 2002* and *Customs Act 1901*.

**Table 1.1: Agency outcomes and output groups**

| <b>Insolvency and Trustee Service Australia</b><br><b>Chief Executive and Inspector-General: Mr Terry Gallagher</b>  |           |
|--|-----------|
| Total Price of Outputs   | \$31.454m |
| Departmental Outcomes Appropriation  | \$30.460m |
| <b>Outcome 1: A personal insolvency system that produces equitable outcomes for debtors and creditors, enjoys public confidence and minimizes the impact of financial failure on the community</b> |           |
| Total Price  | \$31.454m |
| Departmental Outputs Appropriation   | \$30.460m |
| <b>Output 1.1: Personal insolvency laws which satisfy business and community needs</b>   |           |
| Total Price  | \$0.813m  |
| Departmental Output Appropriation  | \$0.787m  |
| <b>Output 1.2: A bankruptcy registry service and compliance with the Bankruptcy Act</b>  |           |
| Total Price  | \$10.192m |
| Departmental Output Appropriation  | \$9.870m  |
| <b>Output 1.3: Regulation of bankruptcy trustees and debt agreement administrators</b>   |           |
| Total Price  | \$2.471m  |
| Departmental Output Appropriation  | \$2.393m  |
| <b>Output 1.4: Administration of bankrupt estates and other arrangements under the Bankruptcy Act</b>  |           |
| Total Price  | \$14.824m |
| Departmental Output Appropriation  | \$14.356m |
| <b>Output 1.5: Investigation of Bankruptcy Act offences</b>  |           |
| Total Price  | \$1.951m  |
| Departmental Output Appropriation  | \$1.889m  |
| <b>Output 1.6: Administration of proceeds of crime property</b>  |           |
| Total Price  | \$1.203m  |
| Departmental Output Appropriation  | \$1.165m  |

## Section 2: Agency resources for 2005–06

### **2.1: APPROPRIATIONS AND OTHER RESOURCES**

Table 2.1 shows the total resources from all origins for 2005–06, including appropriations. The table summarises how revenue will be applied by outcome, by administered and departmental classifications.

The total appropriation for the ITSA in the 2005–06 Budget is \$30.460m.

### **2.2: 2005–06 BUDGET MEASURES**

Budget measures relating to the ITSA as explained in Budget Paper No.2 are summarised in Table 2.2. The table also identifies the relevant outcomes, administered items and outputs associated with each measure.

**Table 2.1: Appropriations and other revenue 2005–06<sup>1</sup> (\$'000)**

| Outcome   | Appropriations |                         |                             |                           | Revenue from Other Sources <sup>5</sup> | Total Resources <sup>7</sup> |
|---|----------------|-------------------------|-----------------------------|---------------------------|---|------------------------------|
|   | Bill No. 1     | Bill No. 2 <sup>2</sup> | Special approp <sup>3</sup> | Total approp <sup>4</sup> |   |                              |
| <b>Outcome 1</b> A personal insolvency system that produces equitable outcomes for debtors and creditors, enjoys public confidence and minimises the impact of financial failure on the community |                |                         |                             |                           |   |                              |
| Departmental  | 30,460         | -                       | -                           | 30,460                    | 994                                     | 31,454                       |
| <b>Total outcome 1</b>  | <b>30,460</b>  | <b>-</b>                | <b>-</b>                    | <b>30,460</b>             | <b>994</b>                              | <b>31,454</b>                |
| Departmental capital (equity injections)  | -              | 1,738                   | -                           | 1,738                     | -                                       | 1,738                        |
| Previous year's outputs   | -              | -                       | -                           | -                         | -                                       | -                            |
| Administered assets and liabilities   | -              | -                       | -                           | -                         | -                                       | -                            |
| <b>Total resources</b>  | <b>30,460</b>  | <b>1,738</b>            | <b>-</b>                    | <b>32,198</b>             | <b>994</b>                              | <b>33,192</b>                |

- 1 This table has been redesigned to correspond with Budget Paper No. 4 'Agency Resourcing'. It now includes (where appropriate) administered revenue from other sources.
  - 2 Under the appropriation structure, Bill No. 2 includes Specific Purpose Payments (SPPs), New Agency Outcomes (NAOs), administered capital and departmental capital via departmental injections and loans.
  - 3 Estimated expenses from individual Special Appropriations are shown at Section 3.
  - 4 Total appropriations = Bill No. 1 + Bill No. 2 + Special appropriations.
  - 5 Revenue from other sources includes FMA s.31 revenues and resources received free of charge.
  - 6 Percentage figures indicate the percentage contribution of Revenue from Government (departmental appropriations) to the total price of outputs, and the percentage contribution of Revenue from other sources (departmental) to the total price of outputs.
  - 7 Total resources = Total appropriations + Revenue from other sources.
- Note: Refer to Budgeted statement of financial performance for application of agency revenue.

**Table 2.2.1: Summary of expense measures disclosed in the 2005–06 Budget (impact on fiscal balance)**

| Measure   | Outcome | Outputs Affected | Appropriations Budget 2005–06 (\$'000) |              |            | Appropriations Forward Estimate 2006–07 (\$'000) |              |            | Appropriations Forward Estimate 2007–08 (\$'000) |              |            | Appropriations Forward Estimate 2008–09 (\$'000) |              |            |
|---|---------|------------------|--|--------------|------------|--|--------------|------------|--|--------------|------------|--|--------------|------------|
|   |         |                  | Admin Expenses                         | Dept Outputs | Total      | Admin Expenses                                   | Dept Outputs | Total      | Admin Expenses                                   | Dept Outputs | Total      | Admin Expenses                                   | Dept Outputs | Total      |
| Proceeds of Crime legislation - continuation of funding for implementation        | 1       | 1.6              | -                                      | -            | -          | -  | -            | -          | -  | -            | -          | -  | -            | -          |
| Insolvency and Trustee Service Australia - implementation of cost recovery review | 1       | All              | -                                      | 467          | 467        | -  | 522          | 522        | -  | 511          | 511        | -  | 517          | 517        |
| Efficiency dividend - increase in the rate from 1 per cent to 1.25 per cent       | 1       | All              | -                                      | (75)         | (75)       | -  | (153)        | (153)      | -  | (232)        | (232)      | -  | (232)        | (232)      |
| <b>Total</b>  |         |                  | -                                      | <b>392</b>   | <b>392</b> | -  | <b>369</b>   | <b>369</b> | -  | <b>279</b>   | <b>279</b> | -  | <b>285</b>   | <b>285</b> |

1. The appropriation requirements shown above for the Cost Recovery measure are for running costs only. The implementation of the cost recovery review is expected to raise approximately \$6.9m per year in additional Administered revenue from 1 July 2006.

2. ITSA will also be receiving an equity injection of \$1.725m for this measure in 2005–06 - refer Table 2.2.2 and Section 2.7.

**Table 2.2.2: Summary of capital measures disclosed in the 2005–06 Budget (impact on fiscal balance)**

| Measure   | Outcome | Outputs Affected | Appropriations Budget 2005–06 (\$'000) |              |              | Appropriations Forward Estimate 2006–07 (\$'000) |              |       | Appropriations Forward Estimate 2007–08 (\$'000) |              |       | Appropriations Forward Estimate 2008–09 (\$'000) |              |       |
|---|---------|------------------|--|--------------|--------------|--|--------------|-------|--|--------------|-------|--|--------------|-------|
|   |         |                  | Admin Expenses                         | Dept Outputs | Total        | Admin Expenses                                   | Dept Outputs | Total | Admin Expenses                                   | Dept Outputs | Total | Admin Expenses                                   | Dept Outputs | Total |
| Insolvency and Trustee Service Australia - implementation of cost recovery review | 1       | All              | -                                      | 1,725        | 1,725        | -  | -            | -     | -  | -            | -     | -  | -            | -     |
| <b>Total</b>  |         |                  | -                                      | <b>1,725</b> | <b>1,725</b> | -  | -            | -     | -  | -            | -     | -  | -            | -     |

## 2.3: OTHER RECEIPTS AVAILABLE TO BE USED

Relevant receipts for ITSA are set out below.

**Table 2.3: Other receipts available to be used**

|   | Estimated<br>Receipts<br>2004–05<br>\$'000 | Budget<br>Estimate<br>2005–06<br>\$'000 |
|---|--|---|
| <b>DEPARTMENTAL OTHER RECIEPTS</b>                            |  |   |
| Sale of goods and services                                    | 594  | 600                                     |
| Resources received free of charge                             | 135  | 135                                     |
| Other revenue   | 626  | 259                                     |
| <b>Total departmental other receipts available to be used</b> | <b>1,355</b>                               | <b>994</b>                              |
| <b>ADMINISTERED OTHER RECEIPTS</b>                            |  |   |
| Other sources of taxation revenue                             | 17,372                                     | 17,372                                  |
| <b>Total administered other receipts available to be used</b> | <b>17,372</b>                              | <b>17,372</b>                           |

This table replaces the former table 'Receipts from independent sources'. It represents own source receipts available for spending on departmental purposes.

Other receipts include:

Departmental - sale of bankruptcy information from the National Personal Insolvency Index, income from sub-lease arrangements and the recovery of fees and disbursements in successful legal proceedings.

Administered – fees and charges levied in accordance with the *Bankruptcy Act 1966* (e.g. with respect to the administration of bankruptcies) and fees received for work done mainly under the *Proceeds of Crime Act 1987* and *Proceeds of Crime Act 2002*.

## 2.5: SPECIAL APPROPRIATIONS

**Table 2.5: Estimates of cash draw-downs from special appropriations**

|  | Note | Estimated<br>Draw-Down<br>2004-05<br>\$'000 | Budget<br>Estimate<br>2005-06<br>\$'000 |
|--|------|---|---|
| <b>Bankruptcy Act 1966 – Section 20B(7)</b>  |      |   |   |
| Purpose: To pay moneys standing to the credit of a bankrupt or a deceased debtor                     | 1    | 40,000                                      | 40,000                                  |
| <b>Bankruptcy Act 1966 – Section 20D(1)</b>  |      |   |   |
| Purpose: To invest moneys in the Common Investment Fund not immediately required                     | 1    | 140,000                                     | 140,000                                 |
| <b>Bankruptcy Act 1966 – Section 254</b>   |      |   |   |
| Purpose: To refund unclaimed moneys  | 1    | 7   | 7                                       |
| <b>Bankruptcy Regulations – Reg. 15A.03</b>  |      |   |   |
| Purpose: To refund overpayments by a trustee of a charge or penalty                                  | 1    | 180   | 180                                     |
| <b>Bankruptcy Regulations – Reg. 16.13A</b>  |      |   |   |
| Purpose: To remit fees that have caused undue hardship or because of other exceptional circumstances | 1    | 2   | 2                                       |
| <b>Financial Management &amp; Accountability Act 1997 – Section 28</b>                               |      |   |   |
| Purpose: To repay amounts required or permitted by law   | 1    | 350   | 350                                     |
| <b>Totals for unlimited appropriations</b>   |      | <b>180,539</b>                              | <b>180,539</b>                          |

1. All the special appropriations are unlimited. The amounts disclosed are therefore estimates and not limits. As the amounts disclosed do not relate to agency expenses, the total amount of these special appropriations are not disclosed in agency resourcing tables in this Portfolio Budget Statement.

## 2.6: SPECIAL ACCOUNTS

**Table 2.6: Estimates of special account flows and balances**

| Special accounts   |       | Estimate - 2005-06, Heavy Figures |                              |                              |                              |                              |
|--|-------|-----------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|  |       | Actual - 2004-05, Light Figures   |                              |                              |                              |                              |
| Name of account  | Notes | Opening Balance                   | Receipts                     | Payments                     | Adjustments                  | Closing Balance              |
|  |       | 2005-06<br>2004-05<br>\$'000      | 2005-06<br>2004-05<br>\$'000 | 2005-06<br>2004-05<br>\$'000 | 2005-06<br>2004-05<br>\$'000 | 2005-06<br>2004-05<br>\$'000 |
| Common Investment Fund Equalization Account – s20G Bankruptcy Act 1966 (A) | 1     | 56                                | 850                          | 850                          | -                            | 56                           |
|  |       | 56                                | 850                          | 850                          | -                            | 56                           |
| Confiscated Assets Special Account – s34A Proceeds of Crime Act 1987 (A)   | 2     | 80                                | 2,000                        | 2,000                        | -                            | 80                           |
|  |       | 80                                | 2,400                        | 2,400                        | -                            | 80                           |
| Confiscated Assets Account – s295 Proceeds of Crime Act 2002 (A)           | 3     | 4,612                             | 7,000                        | 7,000                        | -                            | 4,612                        |
|  |       | 4,612                             | 6,000                        | 6,000                        | -                            | 4,612                        |
| <b>Total Special Accounts 2005-06 Budget Estimate</b>                      |       | <b>4,748</b>                      | <b>9,850</b>                 | <b>9,850</b>                 | <b>-</b>                     | <b>4,748</b>                 |
| <i>Total Special Accounts 2004-05 Estimate Actual</i>                      |       | <i>4,748</i>                      | <i>9,250</i>                 | <i>9,250</i>                 | <i>-</i>                     | <i>4,748</i>                 |

D = Departmental A = Administered

1. The Common Investment Fund Equalization Account contains interest earned on the Common Investment Fund (moneys received by the Official Trustee when administering bankrupt estates) and is transferred to Consolidated Revenue on a monthly basis.
2. The Confiscated Assets Special Account contains the proceeds of the sale of assets confiscated under the *Proceeds of Crime Act 1987*. A determination is made annually to transfer these funds to the Commonwealth.
3. The Confiscated Assets Account contains the proceeds of the sale of assets confiscated under the *Proceeds of Crime Act 2002*. The Minister may approve these funds to be expended on measures for crime prevention, law enforcement and drug related programs.

## 2.7: ADMINISTERED CAPITAL AND DEPARTMENTAL EQUITY INJECTIONS AND LOANS

In 2005-2006 ITSA will receive an equity injection of \$1.725m to assist with the development and implementation of its cost recovery arrangements, scheduled to commence on 1 July 2006. This injection will allow for the development of the systems necessary for the introduction and maintenance of a comprehensive cost recovery regime in ITSA. A second equity injection of \$0.013m will also be received in 2005-2006 to enable ITSA to connect to FedLink, the Australian Government's secure virtual private network.

## 2.8: SPECIAL PUBLIC MONEYS

ITSA fulfils the Official Trustee role under both Bankruptcy and Proceeds of Crime legislation. As a result, it controls assets in a trustee capacity. Where those assets are realised as part of the administration of bankruptcies, the proceeds are paid into the Common Investment Fund Account. Where those assets are realised pursuant to Proceeds of Crime orders, the proceeds are paid into one of the special accounts mentioned in Section 2.6 above.

**Table 2.8: Estimates of special public moneys and balances**

| Special Public Moneys  |       | Estimate - 2005-06, Heavy Figures               |  |  |   |   |
|--|-------|---|--|--|---|---|
|  |       | Actual - 2004-05, Light Figures                 |  |  |   |   |
| Name of account  | Notes | Opening Balance<br>2005-06<br>2004-05<br>\$'000 | Receipts<br>2005-06<br>2004-05<br>\$'000 | Payments<br>2005-06<br>2004-05<br>\$'000 | Adjustments<br>2005-06<br>2004-05<br>\$'000 | Closing Balance<br>2005-06<br>2004-05<br>\$'000 |
| Comcare Trust Account – <i>Safety Rehabilitation and Compensation Act 1998</i> (D) | 1     | -   | 1  | 1  | -   | -   |
|  |       | -   | 1  | 1  | -   | -   |
| Common Investment Fund Account – <i>Bankruptcy Act 1966</i> (A)                    | 2     | 15,603  | 40,000                                   | 40,000                                   | -   | 15,603  |
|  |       | 15,603  | 40,000                                   | 40,000                                   | -   | 15,603  |
| Other Trust Moneys (D)   | 3     | 173   | 65                                       | 65                                       | -   | 173   |
|  |       | 173   | 65                                       | 65                                       | -   | 173   |
| <b>Total Special Public Moneys<br/>2005-06 Budget Estimate</b>                     |       | <b>15,776</b>                                   | <b>40,066</b>                            | <b>40,066</b>                            | <b>-</b>                                    | <b>15,776</b>                                   |
| <i>Total Special Public Moneys<br/>2004-05 Estimate Actual</i>                     |       | 15,776  | 40,066                                   | 40,066                                   | -   | 15,776  |

D = Departmental A = Administered

1. The Comcare Trust Account contains moneys held in trust and advanced to ITSA by Comcare for the purposes of distributing compensation payments made in accordance with the *Safety Rehabilitation and Compensation Act 1998*.
2. The Common Investment Fund Account holds all moneys (other than moneys to which Section 20B(8), Division 2, *Bankruptcy Act 1966* applies) held by the Official Trustee under that Act.
3. Other Trust Moneys is used for the receipt of moneys temporarily held in trust for other persons.

## Section 3: Agency outcomes

This section explains how the resources identified in Section 2 will be used to deliver outputs and administered items to contribute to the outcome for ITSA.

### **3.1: SUMMARY OF OUTCOMES, OUTPUTS AND ADMINISTERED ITEMS**

#### **Output cost attribution**

The ITSA Australia uses a cost attribution model to price its outputs. Costs are charged directly against the relevant outputs where possible eg employee costs and direct expenses. Overheads are attributed to outputs based on the most appropriate cost driver, which primarily relates to the number of staff in each output.

There is no change to the ITSA's outcome and outputs, compared to the 2004-05 Portfolio Budget Statements.

### **3.2: OUTCOMES — DEPARTMENTAL AND ADMINISTERED**

#### **Administered & Departmental appropriations by outcome**

ITSA only has one outcome.

### **3.3: OUTCOMES RESOURCING**

#### **Outcome 1 resourcing**

Table 3.1 shows how the 2005-06 Budget appropriations translate to total resourcing for Outcome 1, including administered expenses, revenue from government (appropriation), revenue from other sources (departmental) and the total price of outputs.

Table 3.1 Total resources for Outcome 1

|  | Estimated<br>Actual<br>2004–05<br>\$'000 | Budget<br>Estimate<br>2005–06<br>\$'000 |
|--|--|---|
| <b>ADMINISTERED APPROPRIATION</b>  |  |   |
| <b>from Special Accounts (estimated payments from Special Account balances<sup>2</sup>)</b>                  |  |   |
| Common Investment Fund Equalization Account – s20G <i>Bankruptcy Act 1966</i>                                | 850                                      | 850                                     |
| Confiscated Assets Special Account – s34A <i>Proceeds of Crime Act 1987</i>                                  | 2,000                                    | 2,400                                   |
| Confiscated Assets Account – s295 <i>Proceeds of Crime Act 2002</i>  | 6,000                                    | 7,000                                   |
| <b>Total Special Account outflows</b>  | <b>8,850</b>                             | <b>10,250</b>                           |
| <b>DEPARTMENTAL APPROPRIATIONS</b>   |  |   |
| Output 1.1 - Personal insolvency laws which satisfy business and community needs                             | 756                                      | 787                                     |
| Output 1.2 - A bankruptcy registry service and compliance with the Bankruptcy Act                            | 9,481                                    | 9,870                                   |
| Output 1.3 - Regulation of bankruptcy trustees and debt agreement administrators                             | 2,298                                    | 2,393                                   |
| Output 1.4 - Administration of bankrupt estates and other arrangements under the Bankruptcy Act              | 13,790                                   | 14,356                                  |
| Output 1.5 - Investigation of Bankruptcy Act offences  | 1,815                                    | 1,889                                   |
| Output 1.6 - Administration of proceeds of crime property  | 1,120                                    | 1,165                                   |
| <b>Total departmental appropriations</b>   | <b>29,260</b>                            | <b>30,460</b>                           |
| <b>Total revenue from Government (appropriations)<br/>Contributing to price of departmental outputs</b>      | <b>29,260</b>                            | <b>30,460</b>                           |
| <b>REVENUE FROM OTHER SOURCES</b>  |  |   |
| Output 1.1 - Personal insolvency laws which satisfy business and community needs                             | 35                                       | 26                                      |
| Output 1.2 - A bankruptcy registry service and compliance with the Bankruptcy Act                            | 439                                      | 322                                     |
| Output 1.3 - Regulation of bankruptcy trustees and debt agreement administrators                             | 106                                      | 78                                      |
| Output 1.4 - Administration of bankrupt estates and other arrangements under the Bankruptcy Act              | 639                                      | 468                                     |
| Output 1.5 - Investigation of Bankruptcy Act offences  | 84                                       | 62                                      |
| Output 1.6 - Administration of proceeds of crime property  | 53                                       | 38                                      |
| <b>Total revenue from other sources</b>  | <b>1,356</b>                             | <b>994</b>                              |
| <b>Total price from departmental outputs<br/>(Total revenue from Government and from other sources)</b>      | <b>30,616</b>                            | <b>31,454</b>                           |
| <b>from Special Accounts (estimated payments from Special Account balances)<sup>2</sup></b>                  |  |   |
| <b>Total departmental Special Account outflows</b>   | -  | -                                       |
| <b>Total estimated resourcing for Outcome 1<br/>(Total price of outputs and administered appropriations)</b> | <b>30,616</b>                            | <b>31,454</b>                           |
|  | 2004–05                                  | 2005–06                                 |
| <b>Average staffing level (number)</b>   | <b>260</b>                               | <b>260</b>                              |

1 Flows into Special Accounts are also shown in the receipts column of the Special Accounts table in Table 2.6.

2 Special Account outflows are shown in the payments column of the Special Account table in Table 2.6.  
The estimated payments from special account balances are provided by way of note only and do not form part of the total estimated resourcing.

## Measures affecting Outcome 1

A summary of measures in the 2005–06 Budget is at Table 2.2.

## Performance information for Outcome 1

**Table 3.2: Performance Information for Outcome 1**

| <b>Performance information for departmental outputs</b>                                 |   |
|---|---|
| <i>Output description</i>   | <i>Performance measure</i>  |
| <b>Output 1.1:</b> Personal insolvency laws which satisfy business and community needs  | <p><i>Price:</i> \$0.813m</p> <p>Timely advice to government on options to improve and simplify the legislation</p> <p>Consultation acknowledged by clients and stakeholders as effective and constructive</p> <p>Client and stakeholder satisfaction with amendments to legislation and improvements to practices, as measured by periodic client opinion surveys</p>  |
| <b>Output 1.2:</b> A bankruptcy registry service and compliance with the Bankruptcy Act | <p><i>Price:</i> \$10.192m</p> <p>Debtors in financial difficulty and creditors make informed decisions on bankruptcy and alternatives</p> <p>Approximately 25,200 new personal insolvency administrations registered and processed annually</p> <p>The National Personal Insolvency Index (NPII) is accurate and accessible</p> <p>Official Receiver powers are effective and exercised within prescribed or agreed standards</p> <p>Client satisfaction as measured by periodic client opinion surveys</p>  |
| <b>Output 1.3:</b> Regulation of bankruptcy trustees and debt agreement administrators  | <p><i>Price:</i> \$2.471m</p> <p>Achievement of target inspection program covering the administrations of approximately 214 bankruptcy trustees and debt agreement administrators and 1000 administrations annually</p> <p>Complaints handled and statutory reviews completed within set timeframes</p> <p>Only suitably qualified people are registered as bankruptcy trustees</p> <p>People who do not meet specific criteria are prohibited from becoming solicitor controlling trustees and debt agreement administrators</p> <p>Client satisfaction as measured by periodic client opinion surveys</p> |

|  |  |
|--|--|
| <p><b>Output 1.4:</b> Administration of bankrupt estates and other arrangements under the Bankruptcy Act</p> | <p><i>Price:</i> \$14.824m</p> <p>Notify creditors of new bankruptcies and pay dividends within set time frames and standards</p> <p>Approximately 3,000 estates with complex issues investigated annually, property and income contributions recovered, dividends paid to creditors and possible offences identified</p> <p>Official Trustee administrations undertaken in accordance with the Bankruptcy Act and within agreed standards</p> <p>Low incidence of major issues raised by Bankruptcy Regulation in respect of Official Trustee administrations</p> <p>Client satisfaction as measured by periodic client opinion surveys</p> |
| <p><b>Output 1.5:</b> Investigation of Bankruptcy Act offences</p>   | <p><i>Price:</i> \$1.951m</p> <p>Timely identification and investigation of material offences under the Bankruptcy Act</p> <p>Increased number of briefs to the Director of Public Prosecutions leading to successful prosecutions</p> <p>Enforcement strategies ensure compliance with Bankruptcy Act</p> <p>Client satisfaction as measured by periodic client opinion surveys</p>   |
| <p><b>Output 1.6:</b> Administration of proceeds of crime property</p>                                       | <p><i>Price:</i> \$1.203m</p> <p>Achieve control of property as soon as identified</p> <p>All forfeited property realised within set timeframes and standards</p>  |

### Evaluations for Outcome 1

A biennial client opinion survey is currently underway, and will inform management for the 2005–06 year.

The results of all evaluation activity for the coming year that relates to this outcome will be shown in the annual report.

## Section 4: Other reporting requirements

### **4.1: PURCHASER-PROVIDER ARRANGEMENTS**

#### **Cross agency arrangements**

ITSA is not part of any arrangements whereby the outputs of one agency are purchased by another agency to contribute to the former agency's specified outcomes.

### **4.2: COST RECOVERY ARRANGEMENTS**

During 2004–05 ITSA completed a review of its cost recovery arrangements in accordance with the *'Commonwealth Cost Recovery Guidelines for Information and Regulatory Agencies'* issued by the Department of Finance and Administration in March 2003. The following *'Cost Recovery Impact Statement - Summary'* outlines the results of that review. A full version of the cost recovery Impact Statement can be found at ITSA's website.

**Cost Recovery Impact Statement - Summary  
Insolvency and Trustee Service Australia  
March 2005**

**Background:**

In December 2002, following a Productivity Commission review, the government introduced a formal cost recovery policy which requires that fees and charges reflect the full cost of the service provided.

**Review of ITSA services:**

In accordance with the government's policy, ITSA reviewed all its fees and charges in 2004, and identified which services should be cost recovered, the type of charge to apply, who should pay and which services would be more appropriately funded through general taxation.

**Outcomes:**

Applying cost recovery policy would result in variations to existing fees and charges in Bankruptcy Act services to ensure they reflect the full cost of the service, and introduction of a new charge - ie extension of the 'realisations charge' - to apply to moneys recovered in debt agreements.

The review concluded that fees and charges should be applied to all Bankruptcy Act services provided by ITSA, other than the processing of debtors' petitions and debt agreement proposals, policy and legislation reform and other support services to the Minister and Parliament, which should be Budget funded.

In connection with ITSA's proceeds of crime activities, costs of controlling and selling property are recovered from the administration when sufficient assets are forfeited. When assets under control are not forfeited, or if their value is insufficient to cover costs, Budget funding of the Official Trustee's costs is appropriate.

These measures would increase the proportion of ITSA's costs which are recovered in fees and charges from 58% to 72%. Implementation of cost recovery is estimated to reduce annual net budget funding to ITSA by approximately \$6m per year.

**Type of charge:**

Ordinarily the charge proposed is a fee for service to the principal user, either in the form of a set amount for the service/product or based on time spent. However, some activities, such as information, regulation and compliance, cannot be directly charged to any individual as they benefit a group of individuals, or a direct charge would be inconsistent with desired policy outcomes.

In those instances, the charge proposed is in the form of a levy on assets realised in estates (the 'realisations charge'). The aggregate of assets realised in estates represents the total pool of money available to meet the costs of the bankruptcy system (other than taxpayer funding). In individual bankruptcies it is used to meet trustees' fees and costs, legal costs and petitioning creditor costs. It is appropriate that a levy on this pool of funds be applied to recover the broad compliance and regulation costs of the

system. It is a levy that is effectively paid by creditors because the final dividend paid to creditors is met from the balance of the moneys realised after all costs fees, levies and disbursements are met. That levy (at a rate of 8%) currently applies to realisations in bankruptcies and personal insolvency agreements.

ITSA currently charges a fee for estates it administers as the trustee. It is a statutory scale not necessarily reflecting the cost of the service provided. The fee is being reviewed to ensure it properly reflects costs. An hourly charge, akin to that usually charged by private registered trustees, is one option. Two alternatives, an activity based fee and a fee based on an administration fee plus a percentage of assets realised in the estate (which would be a variation of the current statutory scale) are being considered in consultation with stakeholders. Either approach will involve the introduction of time recording in some form to support the fee levels applied to the work and to ensure they reflect costs. The decision on which fee to adopt will be made in consultation with clients, and subject to final approval by the Minister.

**Calculation of costs:**

ITSA's costs were apportioned to each service in accordance with the assessed level of usage by the user of that service. All direct, indirect and capital costs, as well as an apportionment of overheads based on usage, were taken into account in assessing the cost of each service.

**Legislative authority for charges:**

Amendments to the *Bankruptcy Act 1966*, *Bankruptcy (Estate Charges) Act 1997*, *Bankruptcy (Registration) Charges Act 1997* and *Bankruptcy Regulations* will be required to reflect the proposed new fee regime. Legal opinion confirms the constitutional validity of the proposed fees and charges. It is proposed that fee changes would be authorised by the Minister (the Attorney-General) and that the instrument prescribing fee changes would be a legislative instrument, subject to disallowance. Rates of fees and charges would be published in the *Gazette*.

**Summary financial information:**

Implementation of the revised fees and charges will generate an additional revenue of \$6.9m per year once fully implemented. This would be offset by \$0.9m per year to meet the cost of changes to existing systems and processes which would be required to deal with new billing and time recording arrangements.

**Monitoring and Periodic Reviews:** ITSA will review costs and prices annually and conduct a complete review of costs and prices, formally involving stakeholders, every two years.

**Stakeholder consultation:**

ITSA consulted extensively with all groups potentially affected by the outcome of the review: The Bankruptcy Reform Consultative Forum (the peak national consultative forum), private trustees, debt agreement administrators, financial counsellors and lawyers. There also has been consultation with all ITSA staff.

Stakeholder consultation has included the following:

- provision of a draft (partial) CRIS to the Department of Finance and Administration at the conclusion of the Stage 1 Policy Review
- issue of a briefing paper on proposed fees and charges to stakeholders in October 2004, followed by briefing and discussion sessions in all States
- consideration of all written submission and verbal feedback, and
- issue of a second briefing paper in mid December 2004, identifying possible changes to fees and charges as a result of written submissions and feedback received.

The discussion papers explained how application of the cost recovery principles would alter existing fees and charges and how they *could* involve introduction of a \$250 fee for processing debtors' petitions and debt agreement proposals, and extension of the realisations charge to debt agreements. The paper canvassed options for exempting debtors who are welfare beneficiaries from the \$250 processing fee. While there was broad agreement with the revision of existing fees and charges to reflect actual costs, strong opposition was expressed by all industry groups to the potential introduction of the new charges – especially a fee for processing debtors' petitions.

The major issues raised by each of the stakeholder groups is discussed below along with ITSA's responses to these issues.

#### *Processing fee for debtor's petitions and debt agreement proposals*

Following the application of cost recovery principles, ITSA had flagged a possible processing fee of \$250 to be charged on debtors for processing debtor's petitions and debt agreement proposals.

The arguments for introducing a processing fee are, in summary, that debtors receive a direct benefit, and charging would generate additional funds to offset the cost of the system.

All stakeholder groups (including creditors) have criticised the proposal on the basis that charging people seeking protection of the insolvency system would be inconsistent with personal insolvency policy. It is argued that it would be counter-intuitive to subject debtors already facing financial hardship to a fee and that many debtors would be denied access to the system. Creditors also argue that it is ultimately they who will pay the fee in many cases, as debtors will simply choose not to pay certain bills or will access additional credit in order to find the \$250 processing fee.

Furthermore critics maintain that the personal insolvency system provides an overriding general community benefit, not just relief for the debtor, so the cost of processing the petitions/proposals should be met by taxpayers, not individual debtors.

Cost recovery principles include having regard to the implications of broader policy objectives. Also, when deciding the cost recovery policy the government agreed to

the Productivity Commission recommendation that “cost recovery arrangements that are not justified on grounds of economic efficiency should not be undertaken to raise revenue for government activities”. The economic rationale for charging, to send a price signal to the user to influence demand, is not particularly relevant in the context of a debtor initiating bankruptcy. It is also the case, as argued by stakeholders, that bankruptcy provides a broad community benefit, not just relief for the debtor, and that it is somewhat counter-intuitive to subject debtors in severe financial hardship to a fee to access relief from unmanageable debt through bankruptcy.

In conclusion, while the review of ITSA’s fees and charges in accordance with the cost recovery principles provides an opportunity to recover a higher proportion of ITSA’s costs, the result would be to introduce charges that would be arguably inconsistent with broader government policy.

#### *Levy on realisation in debt agreements*

The introduction of a 6.5% levy on debt agreement realisations has been flagged as an area causing some concern amongst creditors, debt agreement administrators and the Law Council. Currently, unlike bankruptcy and personal insolvency agreements, debt agreements do not attract the levy. The introduction of the levy would result in a lower return for creditors, however it is possible that creditors may seek to pass on the effect of this levy to debtors by insisting on the same rate of return under a debt agreement proposal. It was suggested the proposed rate (6.5% of total realisations) should not apply or be set lower.

ITSA has analysed the basis and the impact of the levy on debt agreements and there appears to be no case for an exemption from this levy under the cost recovery guidelines. Like bankruptcy and personal insolvency agreements, debt agreements also involve regulatory and compliance work by ITSA. It is considered a charge at 6.5% should apply to debt agreements in the same way it applies to bankruptcies and personal insolvency agreements. Debt agreements typically produce returns of over 70 cents in the dollar to creditors so it is not unreasonable that compliance and regulatory costs of the system are shared by the creditors of debt agreements.

With the introduction of the levy on debt agreement realisations, administrators will be collecting revenues on behalf of ITSA. Administrators will be required to remit the monies collected periodically. We expect to align the periodic payment of the levy with that of registered trustees (presently this is half yearly).

Some representations have been received from administrators alerting ITSA to the additional administrative burdens that the proposed levy may impose on their business. ITSA proposes to work with administrators to minimise this impact, and is presently exploring the possibility of an electronic payment gateway which will enable administrators to remit funds easily. Options for electronic lodgement of periodic funds reconciliations are also being considered.

### *Increase in the fee for Bankruptcy Notices*

The fee for issuing a Bankruptcy Notice (a notice issued by creditors demanding payment from debtors which, unless complied with, could form the basis of a bankruptcy action) will increase from the present \$300 to \$400.

Some criticism on this proposed increase in fee has been received from certain stakeholders. ITSA considers that the increase in fee would not be a deterrent to businesses in their debt collection efforts. The fee for this notice is fully recoverable by the creditor from the funds realised in the subsequent bankruptcy of the debtor.

### *Official Receiver Notices*

A trustee can request the Official Receiver to issue certain statutory notices to debtors or other entities to assist in obtaining relevant information about a debtor's affairs or, in certain cases, demanding payments which are considered owing to the estate under the Bankruptcy Act.

Presently a fee exists for this service and it is payable by both the Official Trustee and registered trustees irrespective of the availability of funds in the estate. It is proposed this continue, although the fee has been revised to better reflect cost recovery. The proposed fee is \$400, but could be more if the time involved in issuing the notice is more than 2 hours.

The Law Council have suggested that no fee be imposed if these notices are issued in estates where there are no funds as it "would undermine the administration of bankruptcy laws".

Every trustee has a duty to make appropriate enquiries about a debtor's affairs - the extent of the enquiries to be made and the investigative methods to be used are a matter of commercial judgement for the trustee. The cost of issuing these notices is not prohibitive and generally trustees would only want a notice to be issued when they believe that the notice would assist in recovering funds. It is consistent with cost recovery principles that a fee be charged as it provides a price signal to the trustee which, like other costs associated with the administration of the estate, inform the commercial judgement of the trustee.

### *Funding of ITSA's work on estates with potential assets*

ITSA conducts preliminary enquiries in those bankruptcies when a registered trustee has not been appointed and when there are indications that there may be realisable assets, bankruptcy offences or antecedent transactions involved; but ultimately no funds are recovered from the estate to meet the cost. This activity costs \$4.9 million annually. Under cost recovery principles it is proposed that this cost be recouped through the levy on realisations in all bankruptcies, debt agreements and personal insolvency agreements.

The Insolvency Practitioners Association of Australia (IPAA) have expressed the view that it would be unjust to recoup this cost through a levy on estates which produce realisations as it effectively penalises creditors of those estates.

ITSA's view is that these preliminary enquiries benefit the creditor community at large by giving them confidence that the debtor's affairs will be investigated if the initial assessment suggests this is warranted. Given that creditors are the principal beneficiary, it is consistent with cost recovery principles that the cost be recovered from this group.

The IPAA have also indicated that while it is recognised that ITSA administers a much greater proportion of asset-less estates, registered trustees also administer some asset-less administrations and they too should be able to draw on the pool of funds generated through the levy to meet the cost of those administrations.

ITSA acknowledges that registered trustees also administer some asset-less estates, but considers that the Official Trustee's role as 'default trustee' is the critical distinguishing factor. Registered trustees can decline to consent as the trustee whereas the Official Trustee cannot. Also, to address the level playing field issue, a proportion (30%) of non-paying work has been factored into the fees that the OT recovers directly from estates.

#### *Other feedback*

The reduction in the rate of the levy on realisations in bankruptcies and personal insolvency agreements from the present 8% to the proposed 6.5% has been welcomed by most stakeholders.

Creditors have generally reacted positively to a proposed fee structure for the Official Trustee's administration of bankrupt estates whereby the fees to be charged by the Official Trustee would not only have regard to ITSA's costs but also to the value of the estate. Consideration is being given to the form of the fee and there will be further consultation with stakeholders, with a final decision being approved by the Minister.

| Schedule of fees and charges |  |                    |                         |  |  |                              |
|------------------------------|--|--------------------|-------------------------|--|--|------------------------------|
| Activity                     |  | Method of recovery | Volume of activity      | Current price  | Cost recovery price  | Total cost of activity (\$m) |
| 1.1                          | Policy, legislation reform and support to ministers  | Budget funded      | N/A                     | Free of charge   | Free of charge   | 0.80                         |
| 1.2                          | Indemnity funding for trustees - section 305   | Budget funded      | 60 matters              | Free of charge   | Free of charge   | 0.60                         |
| 2.1                          | • Processing of debtor's petitions and debt agreement proposals                            | Budget funded      | 20,000 DPs<br>6,000 DAs | Free of charge   | Free of charge   | 6.50                         |
|                              | • Processing the filing of a PIA   | Fee for service    | 300 PIAs                | \$300 per lodgement  | \$400 per lodgement  | 0.12                         |
| 2.2                          | Issue of Bankruptcy Notices  | Fee for service    | 7,600 Notices           | \$300 per notice   | \$400 per notice   | 3.04                         |
| 2.3                          | Issue of Official Receiver notices, eg s77AA, s77C, s139ZQ, s139ZL; and OR taxing of costs | Fee for service    | 675 Notices             | \$145 to \$285 per hour depending on level of staff utilised | \$400 per notice + \$200 per hr if time required is in excess of 2 hrs | 0.70                         |
| 2.4                          | • NPII searches at ITSA offices  | Fee for service    | 19,000 searches         | \$21 per search  | \$22 per search  | 0.42                         |
|                              | • NPII searches via information brokers  | Fee for service    | 193,000 searches        | \$10 per search + \$2 per extract                            | \$14 per search  | 2.70                         |
|                              | • Inspecting documents   | Fee for service    | 900 Inspections         | \$20 per inspection + \$2 per copy                           | \$20 per inspection + \$2 per copy                                     | 0.02                         |
|                              | • Personal Insolvency Reporting Service  | Fee for service    | 151,000 new records     | \$1.62 per record + maintenance charges                      | \$1.62 per record + maintenance charges                                | 0.24                         |

**Insolvency and Trustee Service Australia**

| Activity                     | Method of recovery   | Volume of activity   | Current price  | Cost recovery price   | Total cost of activity (\$m)   |      |
|------------------------------|--|--|--|---|--|------|
| 2.5                          | Information and education  | Cost of \$0.2m to be recovered through the levy (item 7 below) |  |   |  |      |
| 3.1                          | Registration of Trustees: Monitoring and Compliance  | Cost of \$1.8m to be recovered through the levy (item 7 below) |  |   |  |      |
| 3.2                          | Registration of Trustees: Interviewing registered trustee applicants   | Fee for service  | 12 interviews  | \$1,500   | \$2,000 per application  | 0.02 |
|                              | • Initial registration of trustee  | Fee for service  | 11 initial registrations   | \$1,000   | \$1,200 per application  | 0.01 |
|                              | • Renewal of trustee registration  | Fee for service  | 60 renewals per annum  | \$1,000 every three years   | \$1,200 every three years  | 0.07 |
| 3.3                          | Inspector General reviews  | Cost of \$0.5m to be recovered through the levy (item 7 below) |  |   |  |      |
| 4.1                          | Administration of estates with potential assets  | Cost of \$4.9m to be recovered through the levy (item 7 below) |  |   |  |      |
| 4.2                          | Administration of bankrupt estate and special administrations - Official Trustee   | Fee for service  | 40,000 Hrs   | \$4500 flag fall + 16.26% of realisations between \$4500 to \$50,000 +10.84% thereafter | Activity/time based charges with some charges based on value of the estate | 7.70 |
| 5.1                          | Investigation of Bankruptcy Act Offences   | Cost of \$1.8m to be recovered through the levy (item 7 below) |  |   |  |      |
| 6.1                          | Proceeds of Crime  |  |  |   |  |      |
|                              | • matters that realise assets  | Fee for service  | Over 150 control and forfeiture orders per annum                             | \$145 - \$285 per hour  | \$200 per hour   | 0.3  |
|                              | • matters that do not realise assets   | Budget funded  |  | Free of charge  | Free of charge   | 1.1  |
| 7                            | Activities undertaken to maintain creditor confidence in the personal insolvency system:<br>• Bankruptcy Regulation<br>• Bankruptcy Fraud Investigation<br>• Official Trustee enquiries into select bankruptcy estates<br>• I-G Reviews<br>• Policy information sessions | Levy on realisations in bankruptcy, DAs and PIAs               | Realisations totalling \$140 million per annum from bankruptcy, DAs and PIAs | 8% of all realisations under bankruptcy and PIAs (DAs currently excluded)               | 6.5% of all realisations under bankruptcy, DAs and PIAs                    | 9.20 |
| <b>Total fee for service</b> |  |  |  |   | <b>15.04</b>   |      |
| <b>Total levy recovered</b>  |  |  |  |   | <b>9.20</b>  |      |
| <b>Total budget funded</b>   |  |  |  |   | <b>9.30</b>  |      |
| <b>Total</b>                 |  |  |  |   | <b>33.54</b>   |      |

## Section 5: Budgeted financial statements

### 5.1: ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

#### Departmental

The two key items impacting on the Departmental financial statements which create variances between years are:

- The budget measure to implement ITSA's Cost Recovery review, which:
  - provides for an equity injection in 2005-06 to fund the development of systems necessary for the introduction and maintenance of a comprehensive cost recovery regime, and
  - provides additional resourcing each year for the operation and maintenance of that regime.
- The development of a replacement bankruptcy case management and information system, with developmental expenditures being capitalised in 2005-06 and subsequently depreciated.

#### Administered

The implementation of ITSA's Cost Recovery Review will result in an increase in the revenue returned to the Consolidated Revenue Fund from 1 July 2006.

## 5.2: BUDGETED FINANCIAL STATEMENTS TABLES

**Table 5.1: Budgeted Departmental Statement of Financial Performance for the period ended 30 June**

|   | Estimated<br>Actual<br>2004-05<br>\$'000 | Budget<br>Estimate<br>2005-06<br>\$'000 | Forward<br>Estimate<br>2006-07<br>\$'000 | Forward<br>Estimate<br>2007-08<br>\$'000 | Forward<br>Estimate<br>2008-09<br>\$'000 |
|---|--|---|--|--|--|
| <b>REVENUE</b>  |  |   |  |  |  |
| <b>Revenues from ordinary activities</b>  |  |   |  |  |  |
| Revenues from Government  | 29,395                                   | 30,595                                  | 31,322                                   | 31,842                                   | 32,165                                   |
| Goods and services  | 594                                      | 600                                     | 600                                      | 600                                      | 600                                      |
| Other   | 626                                      | 259                                     | 259                                      | 259                                      | 259                                      |
| <b>Revenues from ordinary activities</b>  | <b>30,615</b>                            | <b>31,454</b>                           | <b>32,181</b>                            | <b>32,701</b>                            | <b>33,024</b>                            |
| <b>EXPENSE</b>  |  |   |  |  |  |
| <b>Expenses from ordinary activities<br/>(excluding borrowing costs expense)</b>                              |  |   |  |  |  |
| Employees   | 18,633                                   | 18,964                                  | 19,540                                   | 19,708                                   | 19,897                                   |
| Suppliers   | 10,762                                   | 10,957                                  | 11,117                                   | 10,705                                   | 10,580                                   |
| Depreciation and amortisation   | 1,220                                    | 1,533                                   | 1,524                                    | 2,288                                    | 2,547                                    |
| <b>Expenses from ordinary activities<br/>(excluding borrowing costs expense)</b>                              | <b>30,615</b>                            | <b>31,454</b>                           | <b>32,181</b>                            | <b>32,701</b>                            | <b>33,024</b>                            |
| Borrowing costs expense   | -  | -                                       | -  | -  | -  |
| Share of net profits or (losses) of<br>associates and joint ventures accounted<br>for using the equity method | -  | -                                       | -  | -  | -  |
| Correction of fundamental error   | -  | -                                       | -  | -  | -  |
| <b>Operating surplus or (deficit)<br/>from ordinary activities</b>  | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |

Table 5.2: Budgeted Departmental Statement of Financial Position as at 30 June

|   | Estimated<br>Actual<br>2004–05<br>\$'000 | Budget<br>Estimate<br>2005–06<br>\$'000 | Forward<br>Estimate<br>2006–07<br>\$'000 | Forward<br>Estimate<br>2007–08<br>\$'000 | Forward<br>Estimate<br>2008–09<br>\$'000 |
|---|--|---|--|--|--|
| <b>ASSETS</b>                                       |  |   |  |  |  |
| <b>Financial assets</b>                             |  |   |  |  |  |
| Cash  | 300                                      | 300                                     | 300                                      | 300                                      | 300                                      |
| Receivables   | 4,819                                    | 3,767                                   | 5,077                                    | 6,439                                    | 9,231                                    |
| <b>Total financial assets</b>                       | <b>5,119</b>                             | <b>4,067</b>                            | <b>5,377</b>                             | <b>6,739</b>                             | <b>9,531</b>                             |
| <b>Non-financial assets</b>                         |  |   |  |  |  |
| Land and buildings                                  | 3,207                                    | 3,466                                   | 2,790                                    | 3,256                                    | 2,325                                    |
| Infrastructure, plant and equipment                 | 1,004                                    | 1,676                                   | 1,440                                    | 1,342                                    | 1,113                                    |
| Inventories   | 65                                       | 65                                      | 65                                       | 65                                       | 65                                       |
| Intangibles   | 1,176                                    | 3,767                                   | 4,174                                    | 3,277                                    | 2,515                                    |
| Other non-financial assets                          | 557                                      | 557                                     | 557                                      | 557                                      | 557                                      |
| <b>Total non-financial assets</b>                   | <b>6,009</b>                             | <b>9,531</b>                            | <b>9,026</b>                             | <b>8,497</b>                             | <b>6,575</b>                             |
| <b>Total assets</b>                                 | <b>11,128</b>                            | <b>13,598</b>                           | <b>14,403</b>                            | <b>15,236</b>                            | <b>16,106</b>                            |
| <b>LIABILITIES</b>                                  |  |   |  |  |  |
| <b>Interest bearing liabilities</b>                 |  |   |  |  |  |
| Loans   | -  | -                                       | -  | -  | -  |
| Other interest bearing liabilities                  | -  | -                                       | -  | -  | -  |
| <b>Total interest bearing liabilities</b>           | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Provisions</b>                                   |  |   |  |  |  |
| Employees   | 7,517                                    | 8,355                                   | 9,214                                    | 10,076                                   | 10,946                                   |
| <b>Total provisions</b>                             | <b>7,517</b>                             | <b>8,355</b>                            | <b>9,214</b>                             | <b>10,076</b>                            | <b>10,946</b>                            |
| <b>Payables</b>                                     |  |   |  |  |  |
| Suppliers   | 524                                      | 522                                     | 522                                      | 522                                      | 522                                      |
| Other payables                                      | 187                                      | 83                                      | 29                                       | -  | -  |
| <b>Total payables</b>                               | <b>711</b>                               | <b>605</b>                              | <b>551</b>                               | <b>522</b>                               | <b>522</b>                               |
| <b>Total liabilities</b>                            | <b>8,228</b>                             | <b>8,960</b>                            | <b>9,765</b>                             | <b>10,598</b>                            | <b>11,468</b>                            |
| <b>EQUITY*</b>                                      |  |   |  |  |  |
| <b>Parent entity interest</b>                       |  |   |  |  |  |
| Contributed equity                                  | 622                                      | 2,360                                   | 2,360                                    | 2,360                                    | 2,360                                    |
| Reserves  | 1,151                                    | 1,151                                   | 1,151                                    | 1,151                                    | 1,151                                    |
| Retained surpluses or<br>accumulated deficits       | 1,127                                    | 1,127                                   | 1,127                                    | 1,127                                    | 1,127                                    |
| <b>Total parent entity interest</b>                 | <b>2,900</b>                             | <b>4,638</b>                            | <b>4,638</b>                             | <b>4,638</b>                             | <b>4,638</b>                             |
| <b>Outside equity interest</b>                      |  |   |  |  |  |
| Contributed equity                                  | -  | -                                       | -  | -  | -  |
| Reserves  | -  | -                                       | -  | -  | -  |
| Retained surpluses or<br>accumulated deficits       | -  | -                                       | -  | -  | -  |
| <b>Total outside equity interest</b>                | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Total equity</b>                                 | <b>2,900</b>                             | <b>4,638</b>                            | <b>4,638</b>                             | <b>4,638</b>                             | <b>4,638</b>                             |
| <b>TOTAL ASSETS AND<br/>LIABILITIES BY MATURITY</b> |  |   |  |  |  |
| <b>Current assets</b>                               | <b>5,741</b>                             | <b>4,689</b>                            | <b>5,999</b>                             | <b>7,361</b>                             | <b>10,153</b>                            |
| <b>Non-current assets</b>                           | <b>5,387</b>                             | <b>8,909</b>                            | <b>8,404</b>                             | <b>7,875</b>                             | <b>5,953</b>                             |
| <b>Current liabilities</b>                          | <b>2,712</b>                             | <b>2,709</b>                            | <b>2,710</b>                             | <b>2,710</b>                             | <b>2,710</b>                             |
| <b>Non-current liabilities</b>                      | <b>5,516</b>                             | <b>6,251</b>                            | <b>7,055</b>                             | <b>7,888</b>                             | <b>8,758</b>                             |

\* 'Equity' is the residual interest in assets after deduction of liabilities.

**Table 5.3: Budgeted Departmental Statement of Cash Flows for the period ended 30 June**

|  | Estimated<br>Actual<br>2004–05<br>\$'000 | Budget<br>Estimate<br>2005–06<br>\$'000 | Forward<br>Estimate<br>2006–07<br>\$'000 | Forward<br>Estimate<br>2007–08<br>\$'000 | Forward<br>Estimate<br>2008–09<br>\$'000 |
|--|--|---|--|--|--|
| <b>OPERATING ACTIVITIES</b>                                |  |   |  |  |  |
| <b>Cash received</b>                                       |  |   |  |  |  |
| Goods and services   | 653                                      | 660                                     | 660                                      | 660                                      | 660                                      |
| Appropriations   | 29,260                                   | 30,460                                  | 31,187                                   | 31,707                                   | 32,030                                   |
| Other  | 2,012                                    | 1,797                                   | 1,404                                    | 1,434                                    | 1,306                                    |
| <b>Total cash received</b>                                 | <b>31,925</b>                            | <b>32,917</b>                           | <b>33,251</b>                            | <b>33,801</b>                            | <b>33,996</b>                            |
| <b>Cash used</b>   |  |   |  |  |  |
| Employees  | 18,339                                   | 18,124                                  | 18,682                                   | 18,845                                   | 19,028                                   |
| Suppliers  | 11,891                                   | 12,022                                  | 12,140                                   | 11,658                                   | 11,489                                   |
| Other  | 22                                       | -                                       | -  | -  | -  |
| <b>Total cash used</b>                                     | <b>30,252</b>                            | <b>30,146</b>                           | <b>30,822</b>                            | <b>30,503</b>                            | <b>30,517</b>                            |
| <b>Net cash from or<br/>(used by) operating activities</b> | <b>1,673</b>                             | <b>2,771</b>                            | <b>2,429</b>                             | <b>3,298</b>                             | <b>3,479</b>                             |
| <b>INVESTING ACTIVITIES</b>                                |  |   |  |  |  |
| <b>Cash received</b>                                       |  |   |  |  |  |
| Proceeds from sales of<br>property, plant and equipment    | -  | -                                       | -  | -  | -  |
| <b>Total cash received</b>                                 | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Cash used</b>   |  |   |  |  |  |
| Purchase of property, plant and<br>equipment               | 3,986                                    | 5,562                                   | 1,119                                    | 1,936                                    | 688                                      |
| <b>Total cash used</b>                                     | <b>3,986</b>                             | <b>5,562</b>                            | <b>1,119</b>                             | <b>1,936</b>                             | <b>688</b>                               |
| <b>Net cash from or (used by)<br/>investing activities</b> | <b>(3,986)</b>                           | <b>(5,562)</b>                          | <b>(1,119)</b>                           | <b>(1,936)</b>                           | <b>(688)</b>                             |
| <b>FINANCING ACTIVITIES</b>                                |  |   |  |  |  |
| <b>Cash received</b>                                       |  |   |  |  |  |
| Appropriations - contributed equity                        | -  | 1,738                                   | -  | -  | -  |
| Other  | 1,531                                    | 1,053                                   | -  | -  | -  |
| <b>Total cash received</b>                                 | <b>1,531</b>                             | <b>2,791</b>                            | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Cash used</b>   |  |   |  |  |  |
| Other  | -  | -                                       | 1,310                                    | 1,362                                    | 2,791                                    |
| Extraordinary items  | -  | -                                       | -  | -  | -  |
| <b>Total cash used</b>                                     | <b>-</b>                                 | <b>-</b>                                | <b>1,310</b>                             | <b>1,362</b>                             | <b>2,791</b>                             |
| <b>Net cash from/(used by)<br/>financing activities</b>    | <b>1,531</b>                             | <b>2,791</b>                            | <b>(1,310)</b>                           | <b>(1,362)</b>                           | <b>(2,791)</b>                           |
| <b>Net increase or (decrease)<br/>in cash held</b>         | <b>(782)</b>                             | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| Cash at the beginning of the<br>reporting period           | 1,082                                    | 300                                     | 300                                      | 300                                      | 300                                      |
| <b>Cash at the end of the<br/>reporting period</b>         | <b>300</b>                               | <b>300</b>                              | <b>300</b>                               | <b>300</b>                               | <b>300</b>                               |

**Table 5.4: Departmental Capital Budget Statement for the period ended 30 June**

|   | Estimated<br>Actual<br>2004–05<br>\$'000 | Budget<br>Estimate<br>2005–06<br>\$'000 | Forward<br>Estimate<br>2006–07<br>\$'000 | Forward<br>Estimate<br>2007–08<br>\$'000 | Forward<br>Estimate<br>2008–09<br>\$'000 |
|---|--|---|--|--|--|
| <b>CAPITAL APPROPRIATIONS</b>               |  |   |  |  |  |
| Total equity injections                     | 92                                       | 1,738                                   | -  | -  | -  |
| Total loans                                 | -  | -                                       | -  | -  | -  |
| <b>Total capital appropriations</b>         | <b>92</b>                                | <b>1,738</b>                            | -  | -  | -  |
| <b>Represented by:</b>                      |  |   |  |  |  |
| Purchase of non-financial assets            | 92                                       | 1,738                                   | -  | -  | -  |
| Other                                       | -  | -                                       | -  | -  | -  |
| <b>Total represented by</b>                 | <b>92</b>                                | <b>1,738</b>                            | -  | -  | -  |
| <b>PURCHASE OF<br/>NON-FINANCIAL ASSETS</b> |  |   |  |  |  |
| Funded by capital appropriation             | 92                                       | 1,738                                   | -  | -  | -  |
| Funded internally by departmental resources | 3,532                                    | 3,318                                   | 1,017                                    | 1,760                                    | 625                                      |
| <b>Total</b>                                | <b>3,624</b>                             | <b>5,056</b>                            | <b>1,017</b>                             | <b>1,760</b>                             | <b>625</b>                               |

**Table 5.5: Departmental Property, Plant, Equipment and Intangibles — Summary of Movement (Budget year 2005–06)**

|  | Buildings<br>\$'000 | Other<br>Infrastructure<br>Plant and<br>Equipment<br>\$'000 | Computer<br>Software<br>\$'000 | Total<br>\$'000 |
|--|---------------------|---|--------------------------------|-----------------|
| <b>As at 1 July 2005</b>   |                     |   |                                |                 |
| Gross book value   | 4,309               | 2,088   | 4,757                          | 11,154          |
| Accumulated depreciation   | 1,102               | 1,084   | 3,581                          | 5,767           |
| <b>Opening net book value</b>  | <b>3,207</b>        | <b>1,004</b>  | <b>1,176</b>                   | <b>5,387</b>    |
| Additions:   |                     |   |                                |                 |
| by purchase  | 1,095               | 1,183   | 2,778                          | 5,056           |
| by finance lease   | -                   | -   | -                              | -               |
| from acquisitions of entities or operations<br>(including restructuring) | -                   | -   | -                              | -               |
| Net revaluation increment/decrement                                      |                     |   |                                |                 |
| Reclassifications  |                     |   |                                |                 |
| Depreciation/amortisation expense  | 836                 | 510   | 187                            | 1,533           |
| Recoverable amount write-downs   | -                   | -   | -                              | -               |
| Other movements  | -                   | -   | -                              | -               |
| Disposals:   |                     |   |                                |                 |
| from disposal of entities or operations<br>(including restructuring)     | -                   | -   | -                              | -               |
| other disposals  | -                   | -   | -                              | -               |
| <b>As at 30 June 2006</b>  |                     |   |                                |                 |
| Gross book value   | 5,404               | 3,271   | 7,535                          | 16,210          |
| Accumulated depreciation   | 1,938               | 1,594   | 3,768                          | 7,300           |
| <b>Closing net book value</b>  | <b>3,466</b>        | <b>1,677</b>  | <b>3,767</b>                   | <b>8,910</b>    |

**Table 5.6: Schedule of Budgeted Revenues and Expenses Administered on behalf of Government for the period ended 30 June**

|  | Estimated<br>Actual<br>2004-05<br>\$'000 | Budget<br>Estimate<br>2005-06<br>\$'000 | Forward<br>Estimate<br>2006-07<br>\$'000 | Forward<br>Estimate<br>2007-08<br>\$'000 | Forward<br>Estimate<br>2008-09<br>\$'000 |
|--|--|---|--|--|--|
| <b>REVENUES ADMINISTERED<br/>ON BEHALF OF GOVERNMENT</b>       |  |   |  |  |  |
| <b>Taxation</b>  |  |   |  |  |  |
| Other taxes, fees and fines                                    | -  | -                                       | -  | -  | -  |
| <b>Total taxation</b>  | -  | -                                       | -  | -  | -  |
| <b>Non-taxation<br/>(revenues from Government)</b>             |  |   |  |  |  |
| Other sources of non-taxation<br>revenues                      | 17,372                                   | 17,372                                  | 24,242                                   | 24,342                                   | 24,242                                   |
| <b>Total non-taxation</b>                                      | <b>17,372</b>                            | <b>17,372</b>                           | <b>24,242</b>                            | <b>24,342</b>                            | <b>24,242</b>                            |
| <b>Total revenues administered<br/>on behalf of Government</b> | <b>17,372</b>                            | <b>17,372</b>                           | <b>24,242</b>                            | <b>24,342</b>                            | <b>24,242</b>                            |
| <b>EXPENSES ADMINISTERED<br/>ON BEHALF OF GOVERNMENT</b>       |  |   |  |  |  |
| Grants   | -  | -                                       | -  | -  | -  |
| <b>Total expenses administered<br/>on behalf of Government</b> | -  | -                                       | -  | -  | -  |

**Table 5.7: Schedule of Budgeted Assets and Liabilities Administered on behalf of Government as at 30 June**

|   | Estimated<br>Actual<br>2004-05<br>\$'000 | Budget<br>Estimate<br>2005-06<br>\$'000 | Forward<br>Estimate<br>2006-07<br>\$'000 | Forward<br>Estimate<br>2007-08<br>\$'000 | Forward<br>Estimate<br>2008-09<br>\$'000 |
|---|--|---|--|--|--|
| <b>ASSETS ADMINISTERED<br/>ON BEHALF OF GOVERNMENT</b>            |  |   |  |  |  |
| <b>Financial assets</b>   |  |   |  |  |  |
| Cash  | 76                                       | 76                                      | 76                                       | 76                                       | 76                                       |
| Receivables   | 144                                      | 144                                     | 144                                      | 144                                      | 144                                      |
| Accrued revenues  | 2,460                                    | 2,460                                   | 2,460                                    | 2,460                                    | 2,460                                    |
| <b>Total financial assets</b>                                     | <b>2,680</b>                             | <b>2,680</b>                            | <b>2,680</b>                             | <b>2,680</b>                             | <b>2,680</b>                             |
| <b>Non-financial assets</b>                                       |  |   |  |  |  |
| Land and buildings  | -  | -                                       | -  | -  | -  |
| Infrastructure, plant and equipment                               | -  | -                                       | -  | -  | -  |
| <b>Total non-financial assets</b>                                 | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Total assets administered<br/>on behalf of Government</b>      | <b>2,680</b>                             | <b>2,680</b>                            | <b>2,680</b>                             | <b>2,680</b>                             | <b>2,680</b>                             |
| <b>LIABILITIES ADMINISTERED<br/>ON BEHALF OF GOVERNMENT</b>       |  |   |  |  |  |
| <b>Interest bearing liabilities</b>                               |  |   |  |  |  |
| Loans   | -  | -                                       | -  | -  | -  |
| Other   | -  | -                                       | -  | -  | -  |
| <b>Total interest bearing liabilities</b>                         | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Provisions</b>   |  |   |  |  |  |
| Employees   | -  | -                                       | -  | -  | -  |
| <b>Total provisions</b>   | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Payables</b>   |  |   |  |  |  |
| Other payables  | 47                                       | 47                                      | 47                                       | 47                                       | 47                                       |
| <b>Total payables</b>   | <b>47</b>                                | <b>47</b>                               | <b>47</b>                                | <b>47</b>                                | <b>47</b>                                |
| <b>Total liabilities administered<br/>on behalf of Government</b> | <b>47</b>                                | <b>47</b>                               | <b>47</b>                                | <b>47</b>                                | <b>47</b>                                |

**Table 5.8: Schedule of Budgeted Administered Cash Flows for the period ended 30 June**

|  | Estimated<br>Actual<br>2004-05<br>\$'000 | Budget<br>Estimate<br>2005-06<br>\$'000 | Forward<br>Estimate<br>2006-07<br>\$'000 | Forward<br>Estimate<br>2007-08<br>\$'000 | Forward<br>Estimate<br>2008-09<br>\$'000 |
|--|--|---|--|--|--|
| <b>OPERATING ACTIVITIES</b>  |  |   |  |  |  |
| <b>Cash received</b>   |  |   |  |  |  |
| Other taxes, fees and fines  | 17,372                                   | 17,372                                  | 24,242                                   | 24,242                                   | 24,242                                   |
| Other  | -  | -                                       | -  | -  | -  |
| <b>Total cash received</b>   | <b>17,372</b>                            | <b>17,372</b>                           | <b>24,242</b>                            | <b>24,242</b>                            | <b>24,242</b>                            |
| <b>Cash used</b>   |  |   |  |  |  |
| Employees  | -  | -                                       | -  | -  | -  |
| <b>Total cash used</b>   | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Net cash from/(used by) operating activities</b>                  | <b>17,372</b>                            | <b>17,372</b>                           | <b>24,242</b>                            | <b>24,242</b>                            | <b>24,242</b>                            |
| <b>INVESTING ACTIVITIES</b>  |  |   |  |  |  |
| <b>Cash received</b>   |  |   |  |  |  |
| Proceeds from sales of property, plant and equipment and intangibles | -  | -                                       | -  | -  | -  |
| Other  | -  | -                                       | -  | -  | -  |
| <b>Total cash received</b>   | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Cash used</b>   |  |   |  |  |  |
| Purchase of property, plant and equipment and intangibles            | -  | -                                       | -  | -  | -  |
| <b>Total cash used</b>   | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Net cash from/(used by) investing activities</b>                  | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>FINANCING ACTIVITIES</b>  |  |   |  |  |  |
| <b>Cash received</b>   |  |   |  |  |  |
| Proceeds from borrowing  | -  | -                                       | -  | -  | -  |
| <b>Total cash received</b>   | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| <b>Cash used</b>   |  |   |  |  |  |
| Cash to Official Public Account                                      | 17,372                                   | 17,372                                  | 24,242                                   | 24,242                                   | 24,242                                   |
| <b>Total cash used</b>   | <b>17,372</b>                            | <b>17,372</b>                           | <b>24,242</b>                            | <b>24,242</b>                            | <b>24,242</b>                            |
| <b>Net cash from/(used by) financing activities</b>                  | <b>(17,372)</b>                          | <b>(17,372)</b>                         | <b>(24,242)</b>                          | <b>(24,242)</b>                          | <b>(24,242)</b>                          |
| <b>Net increase or (decrease) in cash held</b>                       | <b>-</b>                                 | <b>-</b>                                | <b>-</b>                                 | <b>-</b>                                 | <b>-</b>                                 |
| Cash at beginning of reporting period                                | 76                                       | 76                                      | 76                                       | 76                                       | 76                                       |
| <b>Cash at end of reporting period</b>                               | <b>76</b>                                | <b>76</b>                               | <b>76</b>                                | <b>76</b>                                | <b>76</b>                                |

### 5.3: NOTES TO THE FINANCIAL STATEMENTS

#### Departmental Financial Statements and Schedules of Administered Items

Under the Commonwealth's accrual budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies control (departmental transactions) are separately budgeted for and reported on from transactions agencies do not have control over (Administered transactions). This ensures that agencies are only held fully accountable for the transactions over which they have control. Differences are:

- Departmental items are those assets, liabilities, revenues and expenses in relation to an agency or authority that are controlled by the agency. Departmental expenses include employee and supplier expenses and other administrative costs, which are incurred by the agency in providing its goods and services, and
- Administered items are revenues, expenses, assets and liabilities that are managed by an agency or authority on behalf of the Government according to set Government directions. Administered expenses include subsidies, grants and personal benefit payments and Administered revenues include taxes, fees, fines and excises.

#### Appropriations in the accrual budgeting framework

Under the Commonwealth's accrual budgeting framework, separate annual appropriations are provided for:

- Departmental price of outputs appropriations: representing the Government's purchase of outputs from agencies
- Departmental capital appropriations: for investments by the Government for either additional equity or loans in agencies
- Administered expense appropriations: for the estimated Administered expenses relating to an existing outcome, a new outcome or a Specific Purpose Payment to the states, and
- Administered capital appropriations: for increases in Administered equity through funding non-expense Administered payments.

Special appropriations fund the majority of payments from the Consolidated Revenue Fund (especially those that are entitlement driven or involve transfers to State governments).

#### Administered investments in controlled entities

Each Commonwealth Department is required to show an Administered investment in each *Commonwealth Authority and Company Act 1997* (CAC) entity within their portfolio. These Administered investments should be valued at the Commonwealth's ownership interest in the net assets of those CAC entities, fixed at a notional acquisition date of 30 June 1997.

## Asset valuation

Infrastructure, plant and equipment are carried at valuation. Revaluations undertaken up to 30 June 2002 were done on a deprival basis; revaluations since that date are at fair value. This change in accounting policy is required by Australian Accounting Standard AASB 1041 Revaluation of Non-Current Assets.

Fair and deprival values for each class of asset are determined as shown below.

| Asset class                       | Fair value measured at: | Deprival value measured at:  |
|-----------------------------------|-------------------------|------------------------------|
| Leasehold improvements            | Market selling price    | Depreciated replacement cost |
| Infrastructure, plant & equipment | Market selling price    | Depreciated replacement cost |

ITSA revalued its assets under the fair value methodology as at 30 June 2003. The financial effect of the adoption of fair value related to those assets to be recognised at fair value for the first time in 2002-03, where the measurement basis for fair value is different to that previously used for the deprival value. The financial effect of this change in policy was negligible for ITSA. A formal revaluation of leasehold improvements, infrastructure, plant and equipment is undertaken at least once every 5 years.