

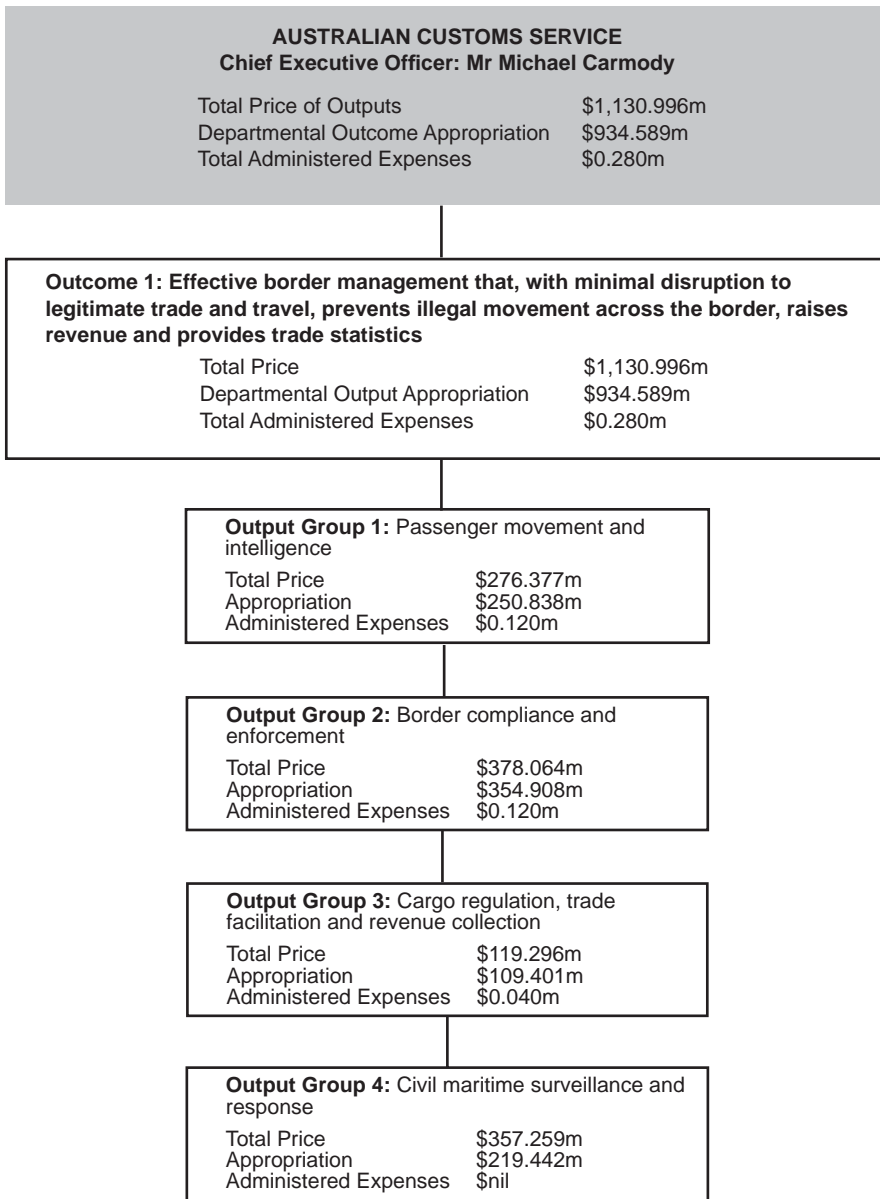
AUSTRALIAN CUSTOMS SERVICE

Section 1: Agency overview

The goal of the Australian Customs Service (Customs) is to provide the nation with effective border management. The role of Customs at the border is to regulate trade and travel, collect revenue and enforce relevant Australian laws. Customs protects Australia's interests by detecting, controlling and, where appropriate, preventing the entry and exit of individuals and goods that have the potential to adversely affect the safety or quality of life in Australia. Customs provides effective border management to facilitate the legitimate movement of goods and people across the Australian border while protecting the community and maintaining appropriate compliance with our laws. In addition, Customs collects revenue and administers trade measures and certain Government industry schemes. Customs also has responsibility for jointly co-ordinating with Defence use of available resources to address maritime security requirements through the Joint Offshore Protection Command.

In 2006-07, Customs will, through a range of measures announced in the 2006-07 Budget, continue to support the Government's priorities relating to counter-terrorism, security arrangements and protecting our borders.

Table 1.1: Agency Outcomes and Output Groups



Section 2: Agency resources for 2006-07

2.1 APPROPRIATIONS AND OTHER RESOURCES

The total departmental appropriation for Customs in the 2006-07 Budget is \$934.589m.

This includes \$89.825m of new operating expense measures¹ which comprises \$57.700m for the enhancement of Australia's fisheries and maritime surveillance, compliance and enforcement, \$8.671m for strengthening air cargo security, \$7.591m for Coastwatch operations in northern waters of Australia, \$4.019m for development of CCTV monitoring and analysis, \$3.500m for the trialling of unmanned aerial vehicles, \$2.538m for the arming of Customs officers, \$2.222m for the expansion of operations in Dampier WA and several minor measures totalling \$3.584m.

At 2005-06 Additional Estimates, Customs received \$36.007m of new operating expense measures for 2006-07 including aviation security (\$20.268m) and increasing enforcement of illegal foreign fishing (\$13.304m).

Departmental equity injections and loans

During 2006-07 Customs will receive a departmental equity injection of \$37.219m. The funding approved by the Government in the 2006-07 Budget process includes \$5.170m for the enhancement of Australia's fisheries and maritime surveillance, compliance and enforcement, \$3.685m for strengthening air cargo security, \$2.136m for development of CCTV monitoring and analysis, \$1.800m for the expansion of operations in Dampier WA and \$1.433m for the arming of Customs officers.

At the 2005-06 Additional Estimates, Customs received \$5.525m of capital funding for 2006-07 including aviation security (\$0.682m) and increasing enforcement of illegal foreign fishing (\$0.422m).

1. These amounts are total appropriation comprising fiscal balance (found in Table 2.2) and depreciation.

Table 2.1: Appropriations and Other Revenue 2006-07

| Outcome/ Non-operating | Departmental | | | Administered | | | | Total | |
|---|---------------------------------------|--|------------------------------------|--|---------------------------------------|--------------------------|-----------------|------------------------------------|---------------------------|
| | Appropriation Bill No. 1 \$'000 | Appropriation Bill No. 2 ^(b) \$'000 | Special Appropriation \$'000 | Receipts ³ (a) \$'000 | Appropriation Bill No. 1 \$'000 | Appropriation Bill No. 2 | | Special Appropriation \$'000 | Receipts (a) \$'000 |
| | | | | | | SPP \$'000 | Other \$'000 | | |
| Outcome 1 - Effective border management that, with minimal disruption to legitimate trade and travel, prevents illegal movement across the border, raises revenue and provides trade statistics | 934,589 | - | - | 58,898 | 280 | - | - | 311,847 | - |
| Equity injections | - | 37,219 | - | - | - | - | - | - | - |
| TOTAL | 934,589 | 37,219 | - | 58,898 | 280 | - | - | 311,847 | - |
| | | | | | | | | | 1,305,614 |
| | | | | | | | | | 37,219 |
| | | | | | | | | | 1,342,833 |

(a) Departmental and administered receipts from other sources (i.e. other than appropriation amounts) that are available to be used.

(b) 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.

2.2 2006-07 BUDGET MEASURES

Budget measures relating to Customs 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 2.2: Agency Measures

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|--|---------|------------------------|--------------------------------------|--------------|-------|--|--------------|-------|--|--------------|-------|--|--------------|-------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| Expense Measures Securing Borders against Illegal Foreign Fishing - expansion of the Joint Offshore Protection Command Headquarters | 1 | 1.2, 1.4 | - | 1,320 | 1,320 | - | 1,665 | 1,665 | - | 1,679 | 1,679 | - | 1,694 | 1,694 |
| Securing Borders against Illegal Foreign Fishing - enhanced regional engagement | 1 | 1.2, 1.4 | - | 639 | 639 | - | 685 | 685 | - | 693 | 693 | - | 699 | 699 |

Table 2.2: Agency Measures (continued)

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|---|---------|------------------------|--------------------------------------|--------------|--------|--|--------------|--------|--|--------------|--------|--|--------------|--------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| Securing Borders against Illegal Foreign Fishing - use of the Southern Ocean patrol vessel in northern waters | 1 | 1.2, 1.4 | - | 12,492 | 12,492 | - | 12,061 | 12,061 | - | 3,456 | 3,456 | - | 3,674 | 3,674 |
| Securing Borders against Illegal Foreign Fishing - training and equipment for Customs officers | 1 | 1.2, 1.4 | - | 406 | 406 | - | 304 | 304 | - | 314 | 314 | - | 324 | 324 |
| Securing Borders against Illegal Foreign Fishing - transfer of apprehended fishers to Darwin | 1 | 1.2, 1.4 | - | 20,640 | 20,640 | - | 18,336 | 18,336 | - | 15,296 | 15,296 | - | 16,071 | 16,071 |
| Securing Borders against Illegal Foreign Fishing - transitional accommodation facilities | 1 | 1.2, 1.4 | - | 5,439 | 5,439 | - | 2,923 | 2,923 | - | 2,953 | 2,953 | - | 3,111 | 3,111 |

Table 2.2: Agency Measures (continued)

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|--|---------|------------------------|--------------------------------------|--------------|-------|--|--------------|-------|--|--------------|-------|--|--------------|-------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| Securing Borders against Illegal Foreign Fishing - investigation and prosecution | 1 | 1.2, 1.4 | - | 411 | 411 | - | 476 | 476 | - | 480 | 480 | - | 485 | 485 |
| Securing Borders against Illegal Foreign Fishing - increased aerial surveillance for Customs | 1 | 1.2, 1.4 | - | 8,160 | 8,160 | - | 8,427 | 8,427 | - | 8,599 | 8,599 | - | 8,766 | 8,766 |
| Securing Borders against Illegal Foreign Fishing - rapid response to illegal landings | 1 | 1.2, 1.4 | - | 6,000 | 6,000 | - | 6,126 | 6,126 | - | 6,255 | 6,255 | - | 6,380 | 6,380 |
| Securing Borders against Illegal Foreign Fishing - project team for the replacement of Customs fleet | 1 | 1.2, 1.4 | - | 1,828 | 1,828 | - | 2,816 | 2,816 | - | - | - | - | - | - |

Table 2.2: Agency Measures (continued)

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|--|---------|------------------------|--------------------------------------|--------------|-------|--|--------------|--------|--|--------------|-------|--|--------------|-------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| National Security - establishing Joint Airport Intelligence Groups ¹ | 1 | 1.1 | - | 1,737 | 1,737 | - | 1,757 | 1,757 | - | 1,593 | 1,593 | - | 1,625 | 1,625 |
| National Security - strengthening air cargo security arrangements | 1 | 1.2 | - | 8,175 | 8,175 | - | 7,658 | 7,658 | - | 7,368 | 7,368 | - | 7,435 | 7,435 |
| Customs - increased Coastwatch surveillance | 1 | 1.4 | - | 7,591 | 7,591 | - | 12,551 | 12,551 | - | - | - | - | - | - |
| National Security - enhancing monitoring and analysis of closed circuit television | 1 | 1.1, 1.2 | - | 3,742 | 3,742 | - | 5,423 | 5,423 | - | 5,279 | 5,279 | - | 5,186 | 5,186 |
| National Security - trialling an unmanned aerial surveillance vehicle | 1 | 1.4 | - | 3,500 | 3,500 | - | 5,545 | 5,545 | - | - | - | - | - | - |

Table 2.2: Agency Measures (continued)

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|--|---------|------------------------|--------------------------------------|--------------|-------|--|--------------|-------|--|--------------|-------|--|--------------|-------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| Australian Customs Service - arming of Customs officers | 1 | 1.2 | - | 2,354 | 2,354 | - | 3,075 | 3,075 | - | 2,379 | 2,379 | - | 2,399 | 2,399 |
| Customs - expansion of operations (Dampier, WA) | 1 | 1.2 | - | 2,102 | 2,102 | - | 2,484 | 2,484 | - | 3,856 | 3,856 | - | 4,293 | 4,293 |
| National Security - implementing the <i>Anti-Terrorism Act (No 2) 2005</i> | 1 | 1.1 | - | 1,598 | 1,598 | - | - | - | - | - | - | - | - | - |
| National Security - maintaining data access for border control agencies | 1 | 1.1 | - | 1,041 | 1,041 | - | 1,704 | 1,704 | - | 1,723 | 1,723 | - | 1,739 | 1,739 |
| National Security - improved border control in the Southeast Asian region | 1 | 1.1 | - | 551 | 551 | - | 2,798 | 2,798 | - | 3,518 | 3,518 | - | - | - |

Table 2.2: Agency Measures (continued)

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|--|---------|------------------------|--------------------------------------|--------------|------------|--|--------------|------------|--|--------------|------------|--|--------------|------------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| Identity security - establishing new strike teams | 1 | 1.2 | - | 370 | 370 | - | 370 | - | 374 | 374 | - | 381 | - | 381 |
| National Security - container examination facilities logistic costs | 1 | 1.2 | - | - | - | - | - | - | - | - | - | - | - | - |
| Customs - fraudulent travel document detection systems | 1 | 1.1 | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Expense Measures | | | - | 90,097 | 90,097 | - | 97,184 | - | 65,815 | 65,815 | - | 64,262 | - | 64,262 |
| Revenue Measures | | | | | | | | | | | | | | |
| Tariff concessions - removing the tariff on parts used in the modification of aircraft | 1 | 1.3 | - | - | - | - | - | - | - | - | - | - | - | - |
| Enhanced Project By-law Scheme - expansion | 1 | 1.3 | (\$10,000) | - | (\$10,000) | (\$10,000) | (\$10,000) | (\$10,000) | (\$10,000) | (\$10,000) | (\$10,000) | (\$10,000) | - | (\$10,000) |

Table 2.2: Agency Measures (continued)

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|--|---------|------------------------|--------------------------------------|--------------|--------------|--|--------------|--------------|--|--------------|--------------|--|--------------|--------------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| Indirect tax concessions for diplomatic and consular missions | 1 | 1.3 | - | - | - | - | - | - | - | - | - | - | - | - |
| Import Processing Charge - increase | 1 | 1.3 | 16,500 | - | 16,500 | 17,000 | - | 17,000 | 17,500 | - | 17,500 | 18,000 | - | 18,000 |
| Total Revenue Measures | | | 6,500 | - | 6,500 | 7,000 | - | 7,000 | 7,500 | - | 7,500 | 8,000 | - | 8,000 |
| Capital Measures | | | | | | | | | | | | | | |
| Securing Borders against illegal Foreign Fishing - expansion of the Joint Offshore Protection Command Headquarters | 1 | 1.2, 1.4 | - | 2,641 | 2,641 | - | 42 | 42 | - | - | - | - | - | - |
| Securing Borders against illegal Foreign Fishing - enhanced regional engagement | 1 | 1.2, 1.4 | - | 72 | 72 | - | - | - | - | - | - | - | - | - |

Table 2.2: Agency Measures (continued)

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|---|---------|------------------------|--------------------------------------|--------------|-------|--|--------------|-------|--|--------------|-------|--|--------------|-------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| Securing Borders against Illegal Foreign Fishing - use of the Southern Ocean patrol vessel in northern waters | 1 | 1,2,1,4 | - | 27 | 27 | - | 3 | 3 | - | - | - | - | - | - |
| Securing Borders against Illegal Foreign Fishing - training and equipment for Customs officers | 1 | 1,2,1,4 | - | 117 | 117 | - | - | - | - | - | - | - | - | - |
| Securing Borders against Illegal Foreign Fishing - transfer of apprehended fishers to Darwin | 1 | 1,2,1,4 | - | 466 | 466 | - | 29 | 29 | - | - | - | - | - | - |
| Securing Borders against Illegal Foreign Fishing - transitional accommodation facilities | 1 | 1,2,1,4 | - | 1,610 | 1,610 | - | - | - | - | - | - | - | - | - |

Table 2.2: Agency Measures (continued)

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|--|---------|------------------------|--------------------------------------|--------------|-------|--|--------------|-------|--|--------------|-------|--|--------------|-------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| Securing Borders against Illegal Foreign Fishing - investigation and prosecution | 1 | 1.2, 1.4 | - | 59 | 59 | - | 20 | 20 | - | - | - | - | - | - |
| Securing Borders against Illegal Foreign Fishing - increased aerial surveillance for Customs | 1 | 1.2, 1.4 | - | 59 | 59 | - | 20 | 20 | - | - | - | - | - | - |
| Securing Borders against Illegal Foreign Fishing - project team for the replacement of Customs fleet | 1 | 1.2, 1.4 | - | 118 | 118 | - | 40 | 40 | - | - | - | - | - | - |
| National Security - establishing Joint Airport Intelligence Groups ¹ | 1 | 1.1 | - | 224 | 224 | - | 155 | 155 | - | - | - | - | - | - |
| National Security - strengthening air cargo security arrangements | 1 | 1.2 | - | 3,685 | 3,685 | - | 677 | 677 | - | 50 | 50 | - | 50 | 50 |

Table 2.2: Agency Measures (continued)

| Measure | Outcome | Output Groups Affected | Appropriations Budget 2006-07 \$'000 | | | Appropriations Forward Estimate 2007-08 \$'000 | | | Appropriations Forward Estimate 2008-09 \$'000 | | | Appropriations Forward Estimate 2009-10 \$'000 | | |
|---|---------|------------------------|--------------------------------------|----------------|----------------|--|----------------|----------------|--|---------------|---------------|--|---------------|---------------|
| | | | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total | Admin Items | Dept Outputs | Total |
| National Security - enhancing monitoring and analysis of closed circuit television | 1 | 1.1, 1.2 | - | 2,136 | 2,136 | - | 5,281 | 5,281 | - | 100 | 100 | - | 60 | 60 |
| Customs - expansion of operations (Dampier, WA) | 1 | 1.2 | - | 1,800 | 1,800 | - | 132 | 132 | - | 185 | 185 | - | 53 | 53 |
| Australian Customs Service - arming of Customs officers | 1 | 1.2 | - | 1,433 | 1,433 | - | 1,262 | 1,262 | - | - | - | - | - | - |
| National Security - improved border control in the Southeast Asian region | 1 | 1.1 | - | 134 | 134 | - | 79 | 79 | - | - | - | - | - | - |
| Identity security - establishing new strike teams | 1 | 1.2 | - | 79 | 79 | - | - | - | - | - | - | - | - | - |
| Total Capital Measures | | | - | 14,661 | 14,661 | - | 7,740 | 7,740 | - | 335 | 335 | - | 163 | 163 |
| Total All Measures | | | 6,500 | 104,758 | 111,258 | 7,000 | 104,924 | 111,924 | 7,500 | 66,150 | 73,650 | 8,000 | 64,425 | 72,425 |

¹ This measure was published in the Attorney-General's Portfolio Additional Estimates Statements 2005-06

2.3 OTHER RECEIPTS AVAILABLE TO BE USED

Table 2.3: Other receipts available to be used¹

| | Estimated Resources 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 |
|--|---|---|
| Departmental resources | | |
| Resources received free of charge | 137,037 | 137,037 |
| Sales of goods and services | 58,505 | 58,898 |
| Total departmental other resources available to be used | 195,542 | 195,935 |

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

2.5 SPECIAL APPROPRIATIONS

Of the gross customs duty income Customs collects on behalf of the Government, an estimate is made for the repayment of duty refunds and drawbacks resulting from overpayments of duty or subsequent export of previously imported goods. The figures in the table below represent the estimated duty rebates expected to be paid.

Table 2.5: Estimates of expenses from special appropriations

| | | Estimated Expenses 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 |
|---|----------------|--|---|
| | Outcome | | |
| Estimated expenses | | | |
| Compensation for Acquisition of Property ¹ | 1 | - | - |
| Investment of Public Money ² | 1 | 149 | 36 |
| Customs Duty and Other Repayments ³ | 1 | 311,202 | 311,811 |
| Total estimate expenses | | 311,351 | 311,847 |

Notes

1. s4AB - *Customs Act 1901*

2. s39(9) FMA Act – Investment of Public Money

3. s28 FMA Act – Repayments Required or Permitted by Law

2.6 SPECIAL ACCOUNTS

Special accounts provide a means to set aside and record amounts used for specified purposes. Special accounts can be created by a Finance Minister's Determination under the *Financial Management and Accountability Act 1997* (FMA Act). These Determinations may be disallowed by the Parliament. Table 2.6 shows the expected additions (credits) and reductions (debits) for each account used by AUSTRAC.

Table 2.6: Estimates of special account flows and balances

| | Opening Balance 2006-07 2005-06 \$'000 | Credits 2006-07 2005-06 \$'000 | Debits 2006-07 2005-06 \$'000 | Adjustments 2006-07 2005-06 \$'000 | Closing Balance 2006-07 2005-06 \$'000 |
|---|---|--|---|--|---|
| Other Trust Moneys Reserve (Australian Customs Service) – <i>Financial Management and Accountability Act 1997</i> s20 | 1,956 3,032 | 759 744 | 797 1,820 | - - | 1,918 1,956 |
| Tradegate Fees Reserve (Australian Customs Service) – <i>Financial Management and Accountability Act 1997</i> s20 | - 176 | - 6,110 | - 6,286 | - - | - - |
| Security Deposits Reserve (Australian Customs Service) – <i>Financial Management and Accountability Act 1997</i> s20 | 6,316 6,304 | 7,535 7,316 | 7,523 7,304 | - - | 6,328 6,316 |
| Industry Related Systems (Australian Customs Service) – <i>Financial Management and Accountability Act 1997</i> s20 | 3,082 2,926 | 26 156 | 3,108 - | - - | - 3,082 |
| Service for Other Government and Non-Government Bodies (Australian Customs Service) – <i>Financial Management and Accountability Act 1997</i> s20 | - - | - - | - - | - - | - - |
| Total Special Accounts 2006-07 Budget Estimate | 11,354 | 8,320 | 11,428 | - | 8,246 |
| <i>Total Special Accounts 2005-06 Estimated Actual</i> | 12,438 | 14,326 | 15,410 | - | 11,354 |

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 Customs outcome.

3.1 SUMMARY OF OUTCOMES, OUTPUTS AND ADMINISTERED ITEMS

The following section provides a departmental overview, the Customs outcome and a table showing the relationship between the outcome and outputs.

Output cost attribution

The methodology used by Customs to attribute overheads and other expenses between outputs and to determine the full price of each output is through the use of an Activity-Based Costing (ABC) model developed by Customs. Approximately 80 per cent of Customs costs can be directly attributed to an output. For the remaining 20 per cent, using FTE as the cost driver, the ABC model allocates overhead expenses to outputs on a FTE per output basis.

CHANGES TO OUTCOME AND OUTPUTS

The outcome and outputs for Customs are the same as the 2005-06 PBS.

The Customs performance measures have been revised where appropriate to improve reporting to Parliament by aligning pricing with functions and to better reflect the integrated nature of Customs activities.

3.2 OUTCOMES — DEPARTMENTAL AND ADMINISTERED

Customs has one outcome, reflecting the integrated nature of the work undertaken by Customs: effective border management that, with minimal disruption to legitimate trade and travel, prevents illegal movement across the border, raises revenue and provides trade statistics.

3.3 OUTCOME 1 — RESOURCING

Table 3.1 shows how the 2006-07 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 Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 |
|--|--|---|
| ADMINISTERED APPROPRIATIONS | | |
| World Customs Organisation contribution | 280 | 280 |
| Total Administered Appropriations | 280 | 280 |
| DEPARTMENTAL APPROPRIATIONS | | |
| Output Group 1 - Passenger Movement and Intelligence | 228,160 | 250,838 |
| Output Group 2 - Border Compliance and Enforcement | 313,546 | 354,908 |
| Output Group 3 - Cargo regulation, trade facilitation and revenue collection | 99,499 | 109,401 |
| Output Group 4 - Civil maritime surveillance and response | 192,696 | 219,442 |
| Subtotal Output Group 1.1 | 833,902 | 934,589 |
| Total revenue from Government (appropriations) | 833,902 | 934,589 |
| Contributing to price of departmental outputs | 833,902 | 934,589 |
| OTHER RESOURCES AVAILABLE TO BE USED | | |
| Output Group 1 - Passenger Movement and Intelligence | 25,292 | 25,539 |
| Output Group 2 - Border Compliance and Enforcement | 23,043 | 23,156 |
| Output Group 3 - Cargo regulation, trade facilitation and revenue collection | 9,811 | 9,895 |
| Output Group 4 - Civil maritime surveillance and response | 137,868 | 137,817 |
| Total revenue from other sources | 196,014 | 196,407 |
| Total resources (Total revenue from Government and from other sources) | 1,029,916 | 1,130,996 |
| from Special Accounts (estimated payments from Special Account balances) | | |
| Other Trust Moneys Reserve - s20 FMA Act 1997 | 1,956 | 1,918 |
| Tradegate Fees Reserve - s20 FMA Act 1997 | - | - |
| Security Deposits Reserve - s20 FMA Act 1997 | 6,316 | 6,328 |
| Industry Related Systems - s20 FMA Act 1997 | 3,082 | - |
| Total Departmental Special Account outflows | 11,354 | 8,246 |
| Total estimated resourcing for Outcome 1 (Total price of outputs and administered appropriations) | 1,030,196 | 1,131,276 |
| Average staffing level (number) | 5,030 | 5,297 |

Measures affecting outcome 1

A summary of measures in the 2006-07 Budget is at Table 2.2.

Performance information for outcome 1

Output Group 1 – Passenger movement and intelligence

This output group covers:

- the processing of passengers, crew, and aircraft arriving and departing Australia
- risk assessment of passengers, crew, baggage, craft, cargo and mail
- intelligence and targeting activities for the identification of people and goods of interest consistent with Customs, immigration, health, family law and other law enforcement and national security requirements, and
- law enforcement strategy and security and Customs counter-terrorism co-ordination and liaison.

Output Group 2 – Border compliance and enforcement

This output group covers the processing of goods across the border in order to prevent the import or export of prohibited items and to control the movement of restricted items, including:

- search and compliance activities in relation to ships and cargo entering and departing Australia
- surveillance of waterfronts
- controlling or restricting the movement of restricted or prohibited goods on behalf of other agencies
- investigations and prosecutions related to the Customs Act for non-narcotic prohibited goods, import fraud and duty evasion
- the evaluation and implementation of a range of new technologies
- policy development and management of container examination facilities
- land-based surveillance of the coastline, and marine surveillance and response carried out for specific operations by the National Marine Unit and the surveillance patrols of the Southern Oceans
- processing of apprehended foreign fishers, and

- real-time and post-transaction compliance activity related to revenue protection and collection.

Output Group 3 – Cargo regulation, trade facilitation and revenue collection

This output group covers:

- cargo regulation, trade facilitation and revenue collection
- the development and management of the electronic Integrated Cargo System
- the investigation of dumping and countervailing complaints and the determination, implementation and review of appropriate measures to address them
- the administration of customs duty and indirect taxes, through the processing of all imported and exported cargo and mail, and items entering and leaving Australia with passengers and crew, and
- the administration of revenue collection activity including Customs related revenue collections associated with craft movements, and collection of the Passenger Movement Charge, the assessment and collection of GST, Luxury Car Tax (LCT) and the Wine Equalisation Tax (WET), and the administration of the Tourist Refund Scheme (TRS).

Related activities also include:

- tariff classification, valuation advice and rules of origin services
- licensing of depots, warehouses and Customs brokers
- the investigation of industry referrals
- the administration of drawback, refund and concessional arrangements for importers and exporters
- the provision of import/export data and statistics, and
- the administration of various industry import duty concession/levy schemes.

Output Group 4 – Civil maritime surveillance and response

This output group covers the provision of air and sea based civil maritime surveillance and response services to a number of government agencies. The aim of the output is to detect, report and respond to potential or actual non-compliance with relevant laws in coastal offshore regions and the Australian Exclusive Economic Zone. It also covers the range of Coastwatch capabilities delivered through the Joint Offshore Protection Command. In particular, the protection of Australia’s offshore oil and gas facilities, the offshore interdiction of ships and the detection and response to any terrorist threat to Australia’s maritime assets and coastline.

Table 3.2: Performance information for Outcome 1

| | |
|---|--|
| OUTCOME 1 - Effective border management that, with minimal disruption to legitimate trade and travel, prevents illegal movement across the border, raises revenue and provides trade statistics. | |
| Effectiveness - Overall Achievement of the Outcome | |
| Protect Australia’s Border Against Illegal Movement of People and Goods | |
| Number of air passenger referrals to Immigration and Health | * |
| Percentage of commercial vessels boarded at first port | Target: 75%-80% |
| Trends in the number and weight of drug detections | The number and weight of drug detections, other detections of prohibited imports and exports and vessels cannot be estimated through any reliable statistical or other method but actual levels achieved will be reported in the Annual Report |
| Trends in the number of detections and/or seizures of other prohibited imports | |
| Contribute to offshore protection | |
| Undetected vessels subsequently found to have breached the Australian border | No target is set but actual levels will be reported in the Annual Report |
| Number of apprehensions of Foreign Fishing Vessels (FFVs) | 570 ^{^^} |
| Raise revenue | |
| Significant revenues collected (including Customs duty, GST collected and Passenger Movement Charge) | Forecast: \$8,250m (net of GST deferred) |
| Minimum Disruption to Trade and Travel | |
| National proportion of arriving international passengers processed through the entry control point within 30 minutes of joining | Target: 95% |
| Proportion of electronically lodged import declarations where an authority to deal is transmitted within 15 minutes of finalisation of details | Target: 97% |

Table 3.2: Performance information for Outcome 1 (continued)

| Output Description | Performance Measure |
|---|--|
| <p>Output Group 1: Passenger movement and intelligence</p> <p>Quality: Proportion of arriving international air passengers processed through the Entry Control Point within 30 minutes</p> <p>Quantity: Number of international passengers (air and sea)</p> <p>Number of international crew (air and sea)</p> <p>Price: \$276.377m</p> | <p>Target: 95%</p> <p>Forecast: Arrivals 11,305,000 Forecast: Departures 11,050,000</p> <p>Forecast: Arrivals 943,000 Forecast: Departures 934,000</p> |
| <p>Output Group 2: Border compliance and enforcement</p> <p>Quality: Number of illegal, unregulated and unreported (IUU) vessels sighted and identified in Australia's EEZ in the Southern Ocean</p> <p>Number of IUU vessels boarded in the Southern Ocean</p> <p>Number of IUU vessels apprehended in the Southern Ocean</p> <p>Number of complaints formally received about Container Examination Facility operations</p> <p>Revenue and compliance assurance activity:</p> <p>Imports – Percentage of audits where revenue was adjusted by \$1,000 or more</p> <p>Exports – Percentage of audits where FOB was adjusted by \$5,000 or more</p> <p>– Percentage of audits where export permits were required but had not been obtained</p> <p>Number of revenue fraud cases adopted for prosecution</p> <p>Number of other fraud cases adopted for prosecution</p> <p>Number of Proceeds of Crime Act (POCA) cases adopted by DPP for recovery of criminal assets</p> <p>Quantity: Southern Ocean Surveillance (Patrol days)</p> <p>National Marine Unit (Patrol days)</p> <p>Number of illegal foreign fishers who were apprehended and processed</p> <p>Percentage of commercial vessels boarded at first port</p> <p>Amount of cargo physically screened</p> <p>Postal items</p> <p>Imported air cargo consignments</p> | <p>*</p> <p>*</p> <p>*</p> <p>*</p> <p>*</p> <p>*</p> <p>*</p> <p>Forecast: 18 - 25</p> <p>Forecast: 100 - 120</p> <p>Forecast: 2 - 4</p> <p>Target: 200</p> <p>Target: 2,400</p> <p>Target: 4,700[^]</p> <p>Target: 75%-80%</p> <p>Target: 100%</p> <p>Target: 4,000,000</p> |

Table 3.2: Performance information for Outcome 1 (continued)

| Output Description | Performance Measure |
|---|---|
| <p>Number of twenty-foot equivalent units (TEUs²) inspected (X-rayed) by Container Examination Facilities</p> <p>Number of TEUs physically examined at Container Examination Facilities</p> <p>Revenue and compliance assurance activity:</p> <p style="padding-left: 20px;">Imports – company audits</p> <p style="padding-left: 20px;">Exports – company audits</p> <p>Number of revenue fraud cases adopted for investigation</p> | <p>Target: 133,000 TEUs</p> <p>Target: 13,300 TEUs</p> <p>Target: 300</p> <p>Target: 100</p> <p>Forecast: 55 - 75</p> |
| <p>Number of other fraud cases adopted for investigation</p> <p>Number of Proceeds of Crime Act (POCA) cases adopted for investigation</p> <p>Price: \$378.064m</p> | <p>Forecast: 400 - 500</p> <p>Forecast: 5 - 10</p> |
| <p>Output Group 3: Cargo regulation, trade facilitation and revenue collection</p> <p>Quality: Proportion of electronically lodged import declarations where an authority to deal is transmitted within 15 minutes of finalisation of details</p> <p>Electronic cargo systems – availability to Customs clients (availability against typical work day)</p> <p>Number of external appeals against decisions:</p> <p style="padding-left: 20px;">Granting of Tariff Concession Orders</p> <p style="padding-left: 20px;">Eligibility for 4th Schedule By-law</p> <p>Rates of external appeal against decisions where the original decision by Customs is overturned</p> <p>Proportion of drawbacks and refunds delivered in accordance with standards</p> <p>Proportion of concessional arrangements for importers and exporters delivered in accordance with standards</p> <p>Proportion of anti-dumping/countervailing cases and reviews completed within 155 days:</p> <p style="padding-left: 20px;">Cases</p> <p style="padding-left: 20px;">Reviews</p> <p>Quantity: Number of customs import declarations lodged</p> <p>Number of air cargo consignments cleared by SAC process²</p> | <p>Target: 97%</p> <p>Target: 99.7%</p> <p>Forecast: 10 - 15</p> <p>Forecast: 1 - 5</p> <p>*</p> <p>Drawbacks 90%</p> <p>Refunds 100%</p> <p>Target: 100%</p> <p>Target: 100%</p> <p>Target: 100%</p> <p>Forecast: Electronic 3,000,000</p> <p>Forecast: Manual 18,000</p> <p>Forecast: 6,400,000</p> |

Table 3.2: Performance information for Outcome 1 (continued)

| Output Description | Performance Measure |
|--|---------------------|
| Quantity: Aerial surveillance coverage (square nautical miles) ^{>} | |
| Coastwatch contracted aircraft and RAAF assets [@] | Forecast: 171.6m |
| Coastwatch contracted satellite (square nautical miles) | Forecast: 5.5m |
| Sorties flown by Coastwatch contracted aircraft | * |
| Augmented Security Patrols | 12 |
| Aerial Surveillance (Flying hours) | |
| Coastwatch contracted aircraft ^{**} | Forecast: 24,220 |
| RAAF P3 Orion ⁺ | Target: 250 |
| Marine surveillance and response (sea days) | |
| RAN Fremantle Class Patrol Boat ⁺ | Target: 1,800 |
| Price: \$357.259m | |

* Performance cannot be forecast through any reliable statistical or other method. Actual results will be reported in the Annual Report.

^ Number of illegal foreign fishers who were apprehended and processed. The new arrangements start partway through 2006-07. The target of 4,700 for 2006-07 is a pro-rata figure to what in a full financial year would be 6,000 illegal foreign fishers.

< Twenty-foot equivalent unit (TEU) refers to a generic measure for sea cargo containers. A 20-foot container equals 1 TEU and a 40-foot container equals 2 TEUs.

<> Air cargo consignments cleared by SAC process are consignments that have been Self-Assessed-Cleared (SAC) by the transporter or importer. As such they will be consignments under \$1,000 in value, and do not require further documentation for Customs clearance purposes.

Workloads against these measures cannot be anticipated, as they are dependent on international trends/ economic circumstances beyond Customs' control. Actual figures will be provided in the Annual Report.

~ Total number of interceptions and apprehensions by Customs and the Australian Defence Force.

+ This target is based on a longstanding Defence commitment to Customs for the civil maritime surveillance program. Resources for Australia's civil maritime surveillance program are also provided by Defence through Operation Relex II and are forecast in the Department of Defence PBS and reported in the Department of Defence Annual Report. Hours/sea days are costed in accordance with rates provided by Defence. Actual figures will be provided in the Annual Report.

@ Forecast Coastwatch aerial surveillance coverage includes additional night surveillance flying.

** Forecast Coastwatch flying hours include additional night surveillance flying and Rapid Response Helicopter flying hours.

^^ Number of apprehensions of Foreign Fishing Vessels. The new arrangement to apprehend and process foreign fishers start partway through 2006-07. The target of 570 for 2006-07 is a pro-rata figure to what in a full financial year would be 720 foreign fishing vessels.

Evaluations for Outcome 1

Customs is subject to various evaluation activities including internal and external audits, performance audits, and regular reviews of performance information. Results are published in the Annual Report, external reports, internal audit reports and in the Customs statistical bulletin called *Customs Figures*.

The internal audit program includes performance auditing, regular compliance audits, risk management and providing better practice advice services. In addition there is provision for evaluations specifically requested by management each year.

Customs collects complaints and complements information to assist in improving business processes and to judge compliance with our client charter. Customs also participates in informal international benchmarking programs from time to time as an additional means of evaluating performance against specific areas of the business. Where the Customs outcome is shared with other agencies, Customs has attempted to align performance data.

Customs has a corporate reporting and performance framework to enable monitoring and review of performance and to assist in ensuring outcomes are met.

As with all other agencies, the Cabinet Implementation Unit receives reports on nominated Cabinet endorsed initiatives.

Section 4: Other reporting requirements

4.1 PURCHASER-PROVIDER ARRANGEMENTS

Customs currently has one purchaser-provider arrangement in place. The purchaser-provider arrangement is with the Australian Taxation Office (ATO). Customs and the ATO have a Memorandum of Understanding (MOU) whereby the ATO will pay Customs \$50.613m in 2006-07 to fund resourcing relating to the operation of the new tax system, in particular the collection of GST related activities and the payment of refunds under the TRS.

Responsibility

Revenue from the MOU Customs has with the ATO is reported against Sales of Goods and Services. The Australian National Audit Office (ANAO) audits this annually.

As part of the MOU with the ATO, Customs must provide to the ATO a letter of comfort at the time of completing the annual financial statements. The letter of comfort contains assurances that Customs has correctly recorded all tax and GST related transactions and that there are no contingencies or commitments that will materially affect the ATO's financial statements.

Control arrangements

Australian Tax Office

Customs and the ATO collaborate to effectively administer Commonwealth indirect taxes on goods. These indirect taxes include: the GST, excise, WET and LCT. The guidelines outlining Customs responsibilities, performance and accountability are in a MOU between the two agencies.

Within the administration of the above taxes Customs is also responsible for performing compliance and auditing functions, collecting and supplying the ATO with tax data and maintaining public confidence.

Resourcing

Resources for these activities are deployed by Customs in each region and central office in the ACT.

Performance against outcomes of purchased outputs

Australian Tax Office

Customs performance in administering GST, LCT, TRS and WET is measured by the following: year to date cost of administering GST, LCT, TRS and WET, number of transactions against previous years, value of transactions against previous years, and the year to date collection of penalties against previous years. The MOU between the ATO and Customs formally recognises the importance both agencies attach to effective collaboration in the administration of Commonwealth revenue.

Customs provides biannual reports to the ATO. These reports outline performance against measures and costs.

4.2 COST RECOVERY ARRANGEMENTS

Customs has three broad categories of cost recovery. The first category relates to charges for regulated services and was subject to a cost recovery review in 2005-06 as required by the 'Australian Government Cost Recovery Guidelines'. The review is published below in summary Cost Recovery Impact Statement (CRIS) format.

The most significant of these arrangements is the Import Processing Charges (IPCs). The IPCs recover the 'commercial' element of import processing activities, container examination facility logistics costs and increased quarantine intervention. These activities are vitally important in ensuring the facilitation, protection and security requirements associated with the importation of goods into Australia.

Revised and restructured Import IPCs were implemented with the import version of the Integrated Cargo System (ICS) on 12 October 2005. An increase in charges will take place on 10 May 2006 following the Government's decision to increase the import entry threshold for goods imported by air and sea from \$250 to \$1,000 which took effect in October 2005.

Charges for low value goods that do not require an entry were removed from 12 October 2005 and costs associated with these transactions are recovered from the import and warehouse processing charges. The broad thrust of the restructure of the IPCs within the context of the increased thresholds is designed to reduce the administrative workload, promote consistency and simplify the IPC schedule.

Subsequent to the cost recovery review, an increase in import processing charges commenced on 10 May 2006. This increase is the subject of a CRIS, which is also published below, in summary format.

The second cost recovery category relates to the delivery of GST Administration services for the ATO. This arrangement is subject to independent review and scrutiny by the ATO and the States. As an intra-government agreement, this category of cost recovery is not subject to Australian Government Cost Recovery Guidelines.

The final category of cost recovery relates to the sale of goods and services of a minor nature completed on commercial terms within a competitive market.

Summary of cost recovery impact statement

During 2005-06 Customs completed a review of its cost recovery arrangements in accordance with the 'Australian Government Cost Recovery Guidelines' (CRIS) issued by the Department of Finance and Administration in July 2005. The following CRIS – Summary titled 'Cost Recovery Review' outlines the results of that review. Following the review is an additional CRIS – Summary titled 'Import Processing Charge Increase' which outlines the required adjustment in import processing charges resulting from increases in the air and sea entry thresholds. A more detailed version of each CRIS can be found at the Customs website.

COST RECOVERY IMPACT STATEMENT – SUMMARY COST RECOVERY REVIEW AUSTRALIAN CUSTOMS SERVICE March 2006

Background

Customs has carried out a cost recovery review in accordance with the requirements of the Government. The review has consisted of a review of existing cost recovery charges and an assessment as to their compliance with the Australian Government Cost Recovery Guidelines, July 2005 (Cost Recovery Guidelines).

Outcomes of Review

The review has confirmed that the cost recovery arrangements in place are consistent with the Cost Recovery Guidelines and that no amendments need to be made to the cost recovery arrangements other than the three issues noted below.

The Review of Financial Health of Customs considered Customs cost recovery arrangements and incorporated recommendations relating to the restructuring of IPCs in the context of the introduction of the Integrated Cargo System. Restructuring of the charges arising from these recommendations were effected through the *Import Processing Charges Amendment Act 2005* which received Royal assent on 6 July 2005 and was the subject of a CRIS. No other changes to cost recovery arrangements or the introduction of any new cost recovery arrangements resulted from that review.

Apart from the three issues raised below, this current review did not identify any circumstances that would require the introduction of new cost recovery arrangements. Customs will continue to review its operations and in the context of new measures will continue to assess the requirement for the introduction of new cost recovery arrangements.

The current review identified three issues that relate to existing cost recovery arrangements, as follows:

- the increase in value thresholds for goods imported by air and sea will lead to a reduction in IPC revenue. As a consequence the IPC charges need to be increased through regulation to address the revenue shortfall. Industry representatives were consulted in relation to the proposed increases
- the recovery of the processing costs associated with the clearance of low value goods. Charges on declarations of low value goods were removed through the *Customs Legislation Amendment (Import Processing Charges) Act 2005* as these charges could not be cost effectively charged to the beneficiary of the service. The potential to charge for declarations on low value goods in a way that is consistent with the Cost Recovery Guidelines will continue to be explored but may only be possible if there are business process changes. In the interim it has been agreed with industry to recover these costs primarily through the air declaration charge, and
- the retention and acquittal of Broker and Warehouse Fees. Revenue from these fees should be acquitted against costs and a mechanism established to arrange for appropriation of that revenue to Customs.

Summary of Charges and Review

Customs has Cost Recovery Arrangements as follows:

| Revenue Collected 2004-05 | |
|--|---------------|
| Import Processing Charges (incl. Depots) | \$m 130.60 |
| Broker and Warehouse Licence Fees | 1.45 |
| Sales of Publications | 0.18 |

Each of the above cost recovery arrangements have been assessed against the requirements of the Cost Recovery Guidelines described below:

Description of Cost Recovery Activities and Charges

IPCs recover the costs of three elements of Customs import processing activities:

- import Processing - this relates to the processing of all commercial imports into Australia via sea, port and air
- increased Quarantine Intervention (IQI) - inspection and intervention of air cargo and postal inspections that are primarily recovered through the air and post declaration charges, and

- container Examination Facility (CEF) logistics - stevedoring and trucking costs required for the presentation of cargo for inspection at Customs CEFs.

Broker and Warehouse Licensing Fees recover the costs of administration of the broker and warehouse licensing function. Sale of Publications is intended to recover the cost of printing and distribution of material that is otherwise available to meet the needs of subscribers preferring hard copy.

Legislative Authority

The majority of IPC revenue is collected via the *Import Processing Charges Act 2001* (IPC01) as restructured by the *Import Processing Charges Amendment Act 2005*. Subordinate to IPC01 in terms of revenue collected is the *Customs Depot Licensing Charges Act 1997* (CDLC97) that imposes charges on various facets of the depot licensing process. Both the IPC01 and CDLC97 are taxing acts. Minor fees are also imposed by the *Customs Act 1901* on goods leaving a warehouse and out of hours services on a 'fee for service basis'.

Broker and Warehouse Licensing Fees are imposed by the *Custom Act 1901* on a 'fee for service basis'.

Sale of Publications is a response to demand for service and product requests that are beyond Customs statutory obligations and but for the copyright held by Customs of material provided represents a commercial arrangement on a 'fee for service basis'.

| Cost Recovery Arrangement | Costs incurred that are cost recovered | |
|-------------------------------------|--|---------|
| | Revenue | Costs |
| | 2004-05 | 2004-05 |
| | \$m | \$m |
| Import Processing Charges | 130.6 | 139.2 |
| Broker and Warehouse Licensing Fees | 1.45 | 1.7 |
| Sale of Publications | 0.18 | 0.24 |

Invariably in any single year revenue and costs associated with IPC do not exactly match, as transaction volume is subject to fluctuations in foreign trade. Any under or over recovery of costs is reported by Customs to industry representatives through the Customs National Consultative Committee (CNCC). There have been small under or over recoveries reported each year since 1997, which have resulted in a cumulative net neutral outcome as at June 2005. Charges have not been adjusted in response to an under or over recovery in any one year.

Customs uses an Activity Based Costing methodology to establish the full costs of all activity-based arrangements.

Consultation Arrangements

The IPCs are regularly reviewed against import processing costs with annual reviews provided to the CNCC. The annual reviews were independently assessed by KPMG until 2004 and the 2004-05 review was audited by the ANAO. The reviews and the opinions expressed by industry through the CNCC after consideration of the reviews form the basis of recommendations to vary the IPCs. In previous consultations industry has indicated a preference for charge structures that provide simplicity and ensure certainty of costs for participants.

Warehouse Licence Fees, Broker Fees and Sale of Publications fees are regularly reviewed with the pricing schedule publicly listed for potential subscribers.

Further Review of Cost Recovery Arrangements

IPCs are subject to annual review with stakeholders as described above. Customs will continue to review its operations and in the context of new measures will assess the requirement for the introduction of new cost recovery arrangements. In accordance with the Cost Recovery Guidelines, a further review of cost recovery arrangements is proposed to be carried out in the 2011-12 Budget.

COST RECOVERY IMPACT STATEMENT – SUMMARY IMPORT PROCESSING CHARGE INCREASE AUSTRALIAN CUSTOMS SERVICE May 2006

Description of Cost Recovery Activities and Charges

On 9 September 2005 the Government decided to increase entry thresholds for goods imported by air and sea from \$250 to \$1,000 in line with existing postal thresholds to take effect from 12 October 2005. Consequently the number of import declarations will be reduced by approximately 600,000 in 2006-07 and this reduction has required that an adjustment be made to the charges applied to above threshold imports.

From 10 May 2006 the electronic import and warehouse processing charge for goods imported by air and post was increased by \$10.10 to \$40.20 and the electronic import and warehouse processing charge for goods imported by sea was increased by \$0.50 to \$50.00.

Activity Cost Recovered

Each of the elements of Customs import processing activities, that are currently cost recovered through the IPC charging regime, are explained below:

- Core Import Processing - this relates to the processing of all commercial imports into Australia via sea, post and air
- IQI activities - inspection and intervention of passengers and goods (air cargo, passenger baggage and postal) arriving in Australia (largely relating to imports by air). IQI costs relating to air cargo and postal inspections are primarily recovered through the IPC air/post entries, and
- CEF logistics - stevedoring of selected containers and transportation to and from port facilities for x-ray examination in the CEF (relates primarily to imports by sea). These costs are recovered through the IPC on sea entries.

The principal charges under the IPC are levied on a declaration basis. Importers of goods into Australia are required to complete a declaration per consignment or entry. Goods are either directly 'entered into home consumption' or alternatively 'entered for warehousing'. The import declarations then form the basis for the assessment process for both Duty and GST liabilities and provide an efficient charging point for the application of an import and warehouse declaration charge.

The beneficiary of the regulated service should pay for that service. For Customs Import Processing activities the ultimate beneficiary of the service is the importer of the goods. The import and warehouse declaration processing charge is applied to the owner of the goods.

Legislative Authority

Both the Import Declaration Processing Charge and Warehouse Declaration Processing Charge are applied under the provisions of the *Import Processing Charges Act 2001*. The quantum of the charges are set by prescription within a legislated limit and this increase will not exceed the limit.

Costs Incurred and Projected Revenue

Total costs associated with the activities to be recovered through the IPCs are as follows:

| | Cost incurred and projected revenue | | |
|-------------------------|-------------------------------------|---------|---------|
| | 2005-06 | 2006-07 | 2007-08 |
| | \$m | \$m | \$m |
| Import processing costs | 94.9 | 97.4 | 101.8 |
| CEF logistics | 30.3 | 31.0 | 31.8 |
| IQI Costs | 12.1 | 12.4 | 12.7 |
| | 137.3 | 140.8 | 146.3 |

Projected Revenues

Total projected revenue to be generated by the IPCs is as follows:

| 2005-06 | 2006-07 | 2007-08 |
|---------|---------|---------|
| \$m | \$m | \$m |
| 128.3 | 140.8 | 146.3 |

Consultative Arrangements

The charges contained in the *Import Processing Charges Act 2001* have been regularly reviewed against import processing costs with annual reviews provided to the CNCC. The reviews and the opinions expressed by industry at CNCC after consideration of the reviews form the basis for the recommendations whether to vary the IPCs. In previous consultations industry has indicated a preference for charge structures that provide simplicity and ensure certainty of costs for participants. Full consultation with industry occurred in regards to these increases and industry's preferred model for cost recovery of the revenue shortfall created by the threshold change was adopted for the increases.

Further Review of Cost Recovery Arrangements

IPCs are subject to annual review with stakeholders and Customs will continue to review its operations in the context of new measures. In accordance with the Cost Recovery Guidelines, a further review of cost recovery arrangements is proposed to be carried out in the 2011-12 Budget.

4.3 AUSTRALIAN GOVERNMENT INDIGENOUS EXPENDITURE (AGIE)

Customs has two internally funded Indigenous programs, 'Engage and Train Torres Strait Islanders as Marine Crew to serve in the Torres Strait' and 'Indigenous Cadetship Program'.

The *Torres Strait Island Marine Trainee Program* is an entry-level recruitment program specifically for people in the Torres Strait to join the Customs National Marine Unit for 12 months as sea-going crew in non-ongoing positions. After completion of the 12 months training, the members are given an opportunity to apply for on-going marine unit positions.

Customs actively contributes to the Australian Public Service Indigenous Employment Project and continues to participate in the *National Indigenous Cadetship Program* to increase overall numbers of indigenous employees and encourage their movement into management positions.

The cadets work part-time and are paid approximately 57 per cent of a full time cadet salary. In addition, the program allows the reimbursement of compulsory fees such as the Higher Education Contribution Scheme (HECS).

Section 5: Budgeted financial statements

5.1 ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

Departmental

Statement of Financial Performance

Total revenue is estimated to be \$1,130.996m in 2006-07, an increase of \$101.880m from 2005-06. The increase is primarily the result of the:

- funding impact of new measures in 2006-07 (\$89.825m) (refer to Table 2.2)
- funding impact of new resources in 2006-07 that were agreed to in the 2005-06 Additional Estimates (\$20.268m), and
- funding impact of past budget measures and decisions and indexation adjustments.

Total expenses are estimated to be \$1,130.996m in 2006-07, an increase of \$101.880m from 2005-06. The increase is primarily the result of expense impacts of the measures listed in Table 2.2 and additional measures that were agreed to in the 2005-06 Additional Estimates.

Customs has estimated a surplus in 2005-06 of \$4.000m.

Statement of financial position

Customs net asset position for 2006-07 is estimated to be \$344.077m. This will be an increase of \$37.219m from 2005-06. The increase is attributable to capital equity injections from Budget measures granted as part of the 2006-07 Budget process and decisions made previously and already reflected in forward estimates. Refer to Table 2.2 for list of measures in the 2006-07 Budget impacting on equity.

Capital budget statement

Customs is estimating capital outlays of \$89.916m in 2006-07. Some of these capital outlays are funded through capital appropriations (\$37.219m), which relate to measures in the 2006-07 Budget and 2005-06 Additional Estimates and measures from prior years. The balance of \$52.697m is funded internally by departmental resources and predominantly relates to an asset replacement program.

Administered

Schedule of budgeted revenues and expenses

Customs will administer the collection of an estimated \$5.036b in net customs duty in 2006-07. This increase of \$476.096m from the 2005-06 projection is due to a combination of factors. The principal factor being a \$250.000m increase in duty collections due to a change in arrangement to reflect the confirmed legislative mechanism according to the provisions of the Fuel Tax Bill 2006. Moderate growth in the importation of excise equivalent goods has also contributed to the increase in projection. Lower than expected effects on duty levels related to the removal of the three per cent tariff on business inputs imported under a tariff concession order, general reductions in passenger motor vehicles and textiles tariffs and implementation of free trade agreements with Thailand and the United States of America have also contributed to the increase in the duty projection.

In addition Customs will administer the collection of an estimated \$547.375m in other revenue. The bulk of this revenue is comprised of revenue from the Passenger Movement Charge (PMC) collected from international travellers and cost recovery related services.

Customs will receive administered appropriation of \$0.280m in 2006-07 to meet Australia's contribution to the World Customs Organisation. In addition, \$311.811m will be made available in 2006-07 for Customs to pay for customs duty refunds and drawbacks (\$300.381m) and other repayments (\$11.430m).

Schedule of budgeted assets and liabilities

Total net administered assets are expected to be \$81.190m in 2006-07.

5.2 BUDGETED FINANCIAL STATEMENTS TABLES

Table 5.1: Budgeted departmental income statement for the period ended 30 June

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|--|---|--|--|--|
| INCOME | | | | | |
| Revenue | | | | | |
| Revenues from Government | 833,902 | 934,589 | 957,176 | 950,892 | 960,516 |
| Goods and services | 58,977 | 59,370 | 59,806 | 61,203 | 60,415 |
| Total revenue | 892,879 | 993,959 | 1,016,982 | 1,012,095 | 1,020,931 |
| Gains | | | | | |
| Other | 137,037 | 137,037 | 137,037 | 137,037 | 137,037 |
| Total gains | 137,037 | 137,037 | 137,037 | 137,037 | 137,037 |
| Total income | 1,029,916 | 1,130,996 | 1,154,019 | 1,149,132 | 1,157,968 |
| EXPENSE | | | | | |
| Employees | 401,940 | 414,988 | 421,578 | 420,494 | 425,152 |
| Suppliers | 574,192 | 651,591 | 660,007 | 647,556 | 651,708 |
| Depreciation and amortisation | 49,746 | 64,416 | 72,433 | 81,082 | 81,108 |
| Finance costs | 38 | - | - | - | - |
| Total expenses | 1,025,916 | 1,130,995 | 1,154,018 | 1,149,132 | 1,157,968 |
| Operating result from continuing operations | 4,000 | - | - | - | - |
| Operating result | 4,000 | - | - | - | - |
| Net surplus or (deficit) attributable to the Australian Government | 4,000 | - | - | - | - |

Table 5.2: Budgeted departmental balance sheet as at 30 June

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|--|---|--|--|--|
| ASSETS | | | | | |
| Financial assets | | | | | |
| Cash | 12,877 | 12,077 | 11,277 | 11,277 | 11,277 |
| Receivables | 89,184 | 101,703 | 123,241 | 148,288 | 154,240 |
| Total financial assets | 102,061 | 113,780 | 134,518 | 159,565 | 165,517 |
| Non-financial assets | | | | | |
| Land and buildings | 47,913 | 47,913 | 47,913 | 47,913 | 47,913 |
| Infrastructure, plant and equipment | 101,083 | 129,615 | 135,080 | 126,250 | 125,163 |
| Inventories | 1,040 | 1,040 | 1,040 | 1,040 | 1,040 |
| Intangibles | 190,394 | 187,362 | 183,315 | 177,501 | 176,587 |
| Other | 14,185 | 14,185 | 14,185 | 14,185 | 14,185 |
| Total non-financial assets | 354,615 | 380,115 | 381,533 | 366,889 | 364,888 |
| Total assets | 456,676 | 493,895 | 516,051 | 526,454 | 530,405 |
| LIABILITIES | | | | | |
| Provisions | | | | | |
| Employees | 109,346 | 109,346 | 110,516 | 110,516 | 110,516 |
| Total provisions | 109,346 | 109,346 | 110,516 | 110,516 | 110,516 |
| Payables | | | | | |
| Suppliers | 36,397 | 36,397 | 35,228 | 35,227 | 35,228 |
| Other | 4,075 | 4,075 | 4,075 | 4,075 | 4,075 |
| Total payables | 40,472 | 40,472 | 39,303 | 39,302 | 39,303 |
| Total liabilities | 149,818 | 149,818 | 149,819 | 149,818 | 149,819 |
| EQUITY* | | | | | |
| Parent entity interest | | | | | |
| Contributed equity | 62,695 | 62,695 | 62,695 | 62,695 | 62,695 |
| Reserves | 15,430 | 15,430 | 15,430 | 15,430 | 15,430 |
| Retained surpluses or accumulated deficits | 228,733 | 265,952 | 288,107 | 298,511 | 302,461 |
| Total parent entity interest | 306,858 | 344,077 | 366,232 | 376,636 | 380,586 |
| Total equity | 306,858 | 344,077 | 366,232 | 376,636 | 380,586 |
| Current assets | 116,246 | 127,965 | 148,703 | 173,750 | 179,702 |
| Non-current assets | 340,430 | 365,930 | 367,348 | 352,704 | 350,703 |
| Current liabilities | 109,346 | 109,346 | 110,516 | 110,516 | 110,516 |
| Non-current liabilities | 40,472 | 40,472 | 39,303 | 39,302 | 39,303 |

*Note: '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 Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|--|---|--|--|--|
| OPERATING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Goods and services | 58,505 | 58,898 | 59,334 | 61,203 | 60,415 |
| Appropriations | 838,211 | 922,542 | 936,110 | 925,845 | 954,564 |
| GST Input Credit Receipts | 43,869 | 43,869 | 43,869 | 43,869 | 43,869 |
| Total cash received | 940,585 | 1,025,309 | 1,039,313 | 1,030,917 | 1,058,848 |
| Cash used | | | | | |
| Employees | 411,134 | 430,035 | 441,473 | 443,540 | 431,103 |
| Suppliers | 442,960 | 499,508 | 503,075 | 487,301 | 508,719 |
| GST Payments to Suppliers | 43,869 | 43,869 | 43,869 | 43,869 | 43,869 |
| Financing costs | 38 | - | - | - | - |
| Total cash used | 898,001 | 973,412 | 988,417 | 974,710 | 983,691 |
| Net cash from or (used by) operating activities | 42,584 | 51,897 | 50,896 | 56,207 | 75,157 |
| INVESTING ACTIVITIES | | | | | |
| Total cash received | | | | | |
| | - | - | - | - | - |
| Cash used | | | | | |
| Purchase of property, plant and equipment | 72,784 | 89,916 | 73,852 | 66,612 | 79,107 |
| Total cash used | 72,784 | 89,916 | 73,852 | 66,612 | 79,107 |
| Net cash from or (used by) investing activities | (72,784) | (89,916) | (73,852) | (66,612) | (79,107) |
| FINANCING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Appropriations - contributed equity | 27,828 | 37,219 | 22,156 | 10,405 | 3,950 |
| Total cash received | 27,828 | 37,219 | 22,156 | 10,405 | 3,950 |
| Cash used | | | | | |
| Repayments of debt | 2,775 | - | - | - | - |
| Total cash used | 2,775 | - | - | - | - |
| Net cash from or (used by) financing activities | 25,053 | 37,219 | 22,156 | 10,405 | 3,950 |
| Net increase or (decrease) in cash held | (5,147) | (800) | (800) | - | - |
| Cash at the beginning of the reporting period | 18,024 | 12,877 | 12,077 | 11,277 | 11,277 |
| Cash at the end of the reporting period | 12,877 | 12,077 | 11,277 | 11,277 | 11,277 |

Table 5.4: Departmental statement of changes in equity — summary of movement for the period ended 30 June

| | Accumulated Results \$'000 | Asset Revaluation Reserve \$'000 | Contributed Equity/ Capital \$'000 | Total Equity \$'000 |
|--|----------------------------------|---|---|---------------------------|
| Opening balance as at 1 July 2006 | | | | |
| Balance carried forward from previous period | 62,695 | 15,430 | 228,733 | 306,858 |
| Adjusted opening balance | 62,695 | 15,430 | 228,733 | 306,858 |
| Income and expense | | | | |
| Sub-total income and expense | - | - | - | - |
| Total income and expenses recognised directly in equity | - | - | - | - |
| Transactions with owners | | | | |
| Appropriation (equity injection) | - | - | 37,219 | 37,219 |
| Sub-total transactions with owners | - | - | 37,219 | 37,219 |
| Estimated closing balance as at 30 June 2007 | 62,695 | 15,430 | 265,952 | 344,077 |

Table 5.5: Departmental capital budget statement for the period ended 30 June

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|--|---|--|--|--|
| CAPITAL APPROPRIATIONS | | | | | |
| Total equity injections | 27,828 | 37,219 | 22,156 | 10,405 | 3,950 |
| Total capital appropriations | 27,828 | 37,219 | 22,156 | 10,405 | 3,950 |
| Represented by: | | | | | |
| Purchase of non-financial assets | 24,761 | 37,219 | 22,156 | 10,405 | 3,950 |
| Other | 3,067 | - | - | - | - |
| Total represented by | 27,828 | 37,219 | 22,156 | 10,405 | 3,950 |
| PURCHASE OF NON-FINANCIAL ASSETS | | | | | |
| Funded by capital appropriation | 24,761 | 37,219 | 22,156 | 10,405 | 3,950 |
| Funded internally by departmental resources | 48,023 | 52,697 | 51,696 | 56,207 | 75,157 |
| Total | 72,784 | 89,916 | 73,852 | 66,612 | 79,107 |

Table 5.6: Departmental property, plant, equipment and intangibles — summary of movement Budget year 2006-07

| | Land | Buildings | Other Infrastructure Plant and Equipment | Computer Software | Total |
|---|--------------|---------------|---|----------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| As at 1 July 2006 | | | | | |
| Gross book value | 4,385 | 61,212 | 159,136 | 236,079 | 460,812 |
| Accumulated depreciation | - | 17,684 | 58,053 | 45,685 | 121,422 |
| Opening net book value | 4,385 | 43,528 | 101,083 | 190,394 | 339,390 |
| by purchase | - | 261 | 69,321 | 20,334 | 89,916 |
| from acquisitions of entities or operations (including restructuring) | - | 6,000 | 6,000 | - | - |
| Depreciation/amortisation expense | - | 6,261 | 34,789 | 23,366 | 64,416 |
| As at 30 June 2007 | | | | | |
| Gross book value | 4,385 | 67,473 | 222,457 | 256,413 | 550,728 |
| Accumulated depreciation | - | 23,945 | 92,482 | 69,051 | 185,478 |
| Estimated closing net book value | 4,385 | 43,528 | 129,615 | 187,362 | 364,890 |

Table 5.7: Schedule of budgeted revenues and expenses administered on behalf of Government for the period ended 30 June

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|--|--|---|--|--|--|
| INCOME ADMINISTERED ON BEHALF OF GOVERNMENT | | | | | |
| Revenue | | | | | |
| Taxation | | | | | |
| Customs Duty | 4,559,985 | 5,036,085 | 5,406,237 | 5,776,537 | 5,596,362 |
| Other taxes, fees and fines | 512,943 | 547,375 | 572,399 | 593,870 | 619,356 |
| Total taxation | 5,072,928 | 5,583,460 | 5,978,636 | 6,370,407 | 6,215,718 |
| Non-taxation | | | | | |
| Other sources of non-taxation revenues | 5,978 | 6,085 | 6,237 | 6,537 | 6,362 |
| Total non-taxation | 5,978 | 6,085 | 6,237 | 6,537 | 6,362 |
| Total revenues administered on behalf of Government | 5,078,906 | 5,589,545 | 5,984,873 | 6,376,944 | 6,222,080 |
| Gains | | | | | |
| Total gains administered on behalf of Government | - | - | - | - | - |
| Total income administered on behalf of Government | 5,078,906 | 5,589,545 | 5,984,873 | 6,376,944 | 6,222,080 |
| EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT | | | | | |
| Suppliers | 280 | 280 | 280 | 280 | 280 |
| Write down and impairment of assets | 2,485 | 2,560 | 2,636 | 2,716 | 2,716 |
| Total expenses administered on behalf of Government | 2,765 | 2,840 | 2,916 | 2,996 | 2,996 |

Table 5.8: Schedule of budgeted assets and liabilities administered on behalf of government as at 30 June

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|--|---|--|--|--|
| ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT | | | | | |
| Financial assets | | | | | |
| Cash | 3,441 | 3,441 | 3,441 | 3,441 | 3,441 |
| Receivables | 86,923 | 93,008 | 99,245 | 105,782 | 112,144 |
| Total financial assets | 90,364 | 96,449 | 102,686 | 109,223 | 115,585 |
| Non-financial assets | | | | | |
| Inventories | 69 | 69 | 69 | 69 | 69 |
| Total non-financial assets | 69 | 69 | 69 | 69 | 69 |
| Total assets administered on behalf of Government | 90,433 | 96,518 | 102,755 | 109,292 | 115,654 |
| LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT | | | | | |
| Interest bearing liabilities | | | | | |
| Other | 2,926 | 2,926 | 2,926 | 2,926 | 2,926 |
| Total interest bearing liabilities | 2,926 | 2,926 | 2,926 | 2,926 | 2,926 |
| Payables | | | | | |
| Taxation refunds due | - | - | - | - | - |
| Other payables | 12,402 | 12,402 | 12,402 | 12,402 | 12,402 |
| Total payables | 12,402 | 12,402 | 12,402 | 12,402 | 12,402 |
| Total liabilities administered on behalf of Government | 15,328 | 15,328 | 15,328 | 15,328 | 15,328 |

Table 5.9: Schedule of Budgeted Administered Cash Flows for the period ended 30 June

| | Estimated Actual 2005-06 \$'000 | Budget Estimate 2006-07 \$'000 | Forward Estimate 2007-08 \$'000 | Forward Estimate 2008-09 \$'000 | Forward Estimate 2009-10 \$'000 |
|---|--|---|--|--|--|
| OPERATING ACTIVITIES | | | | | |
| Cash received | | | | | |
| Other taxes, fees and fines | 5,062,943 | 5,577,375 | 5,972,399 | 6,363,870 | 6,209,356 |
| Sales of goods | 5,978 | 6,085 | 6,237 | 6,537 | 6,362 |
| Cash from Official Public Account | 311,202 | 311,811 | 318,047 | 318,047 | 318,047 |
| Total cash received | 5,380,123 | 5,895,271 | 6,296,683 | 6,688,454 | 6,533,765 |
| Cash used | | | | | |
| Cash to the Official Public Account | 5,377,358 | 5,892,431 | 6,293,767 | 6,685,458 | 6,530,769 |
| Suppliers | 2,765 | 2,840 | 2,916 | 2,996 | 2,996 |
| Total cash used | 5,380,123 | 5,895,271 | 6,296,683 | 6,688,454 | 6,533,765 |
| Net cash from or (used by) operating activities | - | - | - | - | - |
| INVESTING ACTIVITIES | | | | | |
| Total cash received | - | - | - | - | - |
| Total cash used | - | - | - | - | - |
| Net cash from or (used by) investing activities | - | - | - | - | - |
| FINANCING ACTIVITIES | | | | | |
| Total cash received | - | - | - | - | - |
| Total cash used | - | - | - | - | - |
| Net cash from or (used by) financing activities | - | - | - | - | - |
| Net increase or (decrease) in cash held | - | - | - | - | - |
| Cash at beginning of reporting period | 3,441 | 3,441 | 3,441 | 3,441 | 3,441 |
| Cash from Official Public Account for: | 311,202 | 311,811 | 318,047 | 318,047 | 318,047 |
| Transfers from other entities | 5,068,921 | 5,583,460 | 5,978,636 | 6,370,407 | 6,215,718 |
| Cash to Official Public Account for: | 5,377,358 | 5,892,431 | 6,293,767 | 6,685,458 | 6,530,769 |
| Transfers to other entities (Finance - Whole of Government) | 2,765 | 2,840 | 2,916 | 2,996 | 2,996 |
| Cash at end of reporting period | 3,441 | 3,441 | 3,441 | 3,441 | 3,441 |

NOTES TO THE FINANCIAL STATEMENTS - BUDGETED INCOME STATEMENT

Basis of accounting

The income statement and balance sheet have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets, which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the balance sheet when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard.

Revenues and expenses are recognised in the income statement when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Administered revenues, expenses, assets, liabilities and cash flows are accounted for on the same basis and using the same policies as for Agency items.

International financial reporting standards

These financial statements have been prepared in accordance with the requirements of Australian Equivalents to International Financial Reporting Standards (AEIFRS).

Revenues from government

Appropriations for departmental outputs are recognised as revenue. The 2006-07 appropriation revenue from government of \$934.589m is an increase of \$104.187m from the previous year. The increase is the result of funding from new measures (Refer to Table 2.2 - Summary of Measures) and funding from past Budget measures. The increase in revenue from government in the forward estimates is due to new measures, in particular, enhancement of Australia's fisheries and maritime surveillance, compliance and enforcement arrangements, national security - strengthening air cargo security arrangements, arming of customs officers and national security - monitoring and analysis of CCTV.

Goods and services

Sale of goods and services is based primarily on a service level agreement with the ATO (\$50.613m). Further estimates of FMA Act s31 revenue are made based on last financial year's actual results.

Other

Other comprises revenue received free of charge from the Department of Defence. Estimates based on a longstanding Defence commitment to Customs for the civil maritime surveillance program and are costed on rates advised by Defence for flying hours and sea day patrols.

Employee Expenses

Employee expenses consist of salaries, leave entitlements, redundancy expenses and superannuation. Employee expenses are estimated to be \$414.988m in 2006-07. This is an increase of \$18.848m from 2005-06. The increase in employee expenses in the forward estimates includes 'Enhancement of Australia's fisheries and maritime surveillance, compliance and enforcement arrangements' and 'national security - strengthening air cargo security arrangements'.

Supplier Expenses

Supplier expenses consist of consultants and contract costs, travel expenses and administrative costs. Supplier expenses are estimated to be \$651.592m in 2006-07. This is an increase of \$75.900m from 2005-06. The change is principally attributable to increases in supplier costs resulting from new measures, in particular 'Enhancement of Australia's fisheries and maritime surveillance, compliance and enforcement arrangements' and 'national security - strengthening air cargo security arrangements'.

Cash

Cash includes notes and coins held and any deposits held at call with a bank or financial institution.

Net surplus or deficit

The estimated surplus in 2006-07 is \$4.000m. The surplus is due to a lower than expected depreciation charge.

Infrastructure, plant and equipment

Refer to department non-financial assets — summary of movement (Table 5.5). Customs will receive \$37.219m in equity injections for infrastructure and equipment acquisitions relating to several measures from the 2006-07 Budget process and from past measures.

Intangibles

Refer to department non-financial assets — summary of movement (Table 5.5).

Other non-financial assets

Other non-financial assets comprise an estimate for prepayments.

Employee provisions

Employee provisions comprise annual and long service leave liabilities, and other accrued employee entitlements.

Contributed equity

Refer to departmental capital budget statement (Table 5.4).

Departmental Financial Statements and Notes 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 Customs. Departmental expenses include employee and supplier expenses and other administrative costs, which are incurred by Customs 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 consolidated revenue (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

From 1 July 2002 Commonwealth agencies and authorities are required to use either the cost basis or the fair value basis to measure property, plant and equipment. The shift from the deprival method of valuation to fair value should occur gradually over a three-year period. Fair value essentially reflects the current market value of an asset.