8.2 Budgetary Reporting - Explanation of Major Variances

8.2A: Explanation of Major Departmental Variances

The following provides explanations of major variances between DFAT's original budget estimates, as published in the 2018-19 Portfolio Budget Statements (PBS) and the final outcome for the financial year, as presented, in accordance with the Australian Accounting Standards. Major variances are those relevant to an analysis of DFAT's performance, not merely on numerical differences between the actual amounts and budget. Unless otherwise individually significant, no additional commentary has been included.

There are a number of items not incorporated into PBS estimates due to their unpredictable, uncontrollable and / or unplanned nature. This includes:

- The write-down, impairment and sale of assets reported in the Statement of Comprehensive Income;
- Gains or losses from foreign exchange differences reported in the Statement of Comprehensive Income and Cash Flow Statement;
- Accounting adjustments for DFAT's provision for the future make-good of leasehold improvements in leased properties reported in the Statement of Comprehensive Income and Statement of Changes in Equity; and,
- Adjustments to revenue from Government for no-win / no-loss funding arrangements with the Department of Finance which are reported in the Statement of Comprehensive Income.

Additionally, DFAT does not estimate or factor in revaluation adjustments for land, buildings and plant and equipment assets as these movements are beyond DFAT's control and are difficult to predict. This item impacts other comprehensive income reported in the Statement of Comprehensive Income and Statement of Changes in Equity and non-financial asset balances reported in the Statement of Financial Position.

Major variances between actual figures reported in the financial statement and the PBS estimates include:

- Revenue from Government increased by $33.1m (2.4%) due to an increase in operating funding which occurred through 2018-19 Portfolio Additional Estimates and a net increase in no-win / no-loss funding arrangements with the Department of Finance. This has a flow on effect on employees and suppliers on Statement of Comprehensive Income and Cash Flow Statement;
- Employee benefits increased by $71.1m (9.1%) and employee provisions increased by $56.2m (25.8%) primarily due to a decrease in the long term Government bond rate used for valuing employee provisions and an increase in FBT expenses due to increased living away from home allowances and accommodation payments for staff posted overseas, affected by the devaluation of the Australian dollar;
- Supplier payables decreased by $23.9m (15.6%) and other payables increased by $24.9m (71.3%) due to timing of invoices received and cash payments at the close of the reporting period;
- Cash and cash equivalents are $64.2m (17.5%) higher due to a larger than estimated closing balance of the overseas property special account attributable to lower than expected disbursements on property works; and,
- Assets held for sale of $19.6m and not budgeted for, relates to a property in Manila.

The Cash Flow Statement variance to budget analysis also includes variances due to items excluded from PBS estimates. Excluded items are section s74 receipts transferred to the Official Public Account (OPA) and subsequently re-drawn as appropriations, estimated cash transfers to and from the OPA for the OPO Special Account, returns of equity such as through lapsed appropriations and GST payments to suppliers and subsequent refunds received from the Australian Taxation Office.

8.2B: Explanation of Major Administered Variances

There are a number of items excluded from the Portfolio Budget Statement (PBS) estimates on the Administered Schedule of Comprehensive Income, due to the unpredictable, uncontrollable and/or unplanned nature of some transactions, specifically items such as contributions, unplanned revenue and gains and Efic NIA income.

Further, DFAT does not estimate or factor in adjustments for re-measurement of the net liability for defined benefit pension schemes, revaluation of property, plant and equipment assets or movements in the carrying amount of investments, on the Administered Schedule of Assets and Liabilities for PBS purposes. Nor does it estimate the corresponding entries in Other Comprehensive Income (100.0% variance) as part of the PBS estimates. This is because the main factors that drive these movements are beyond DFAT's control, such as movements due to changes in the value of the Australian Dollar (AUD) on currency markets.

Overall expenses are $91.2m (2.3%) higher primarily due to a decision made by Government as part of the 2019-20 Federal Budget process to bring forward payments of $170.0m for existing multilateral replenishments into 2018-19. This was offset by reductions in other grant and contributions of $68.5m (13.1%). The budget estimates are based on obligations to pay as assessed by international organisations such as the United Nations (UN) whereas actual contributions paid depend on resolutions passed by UN members. Driving the reduction is a range of decisions made by the UN members that passed resolutions relating to discontinuing or reducing certain peacekeeping missions during the year.

Total administered revenue is $52.3m (7.5%) lower than budget. Passport and consular fees, which comprise the majority of fees and charges collected, have increased only marginally in 2018-19 with the number of passports issued increasing only 1.7% over the previous year. Demand for passports has not met budget expectations. Consequently, fees and charges are below budget by $47.4m (7.8%). Efic NIA revenue is $4.8m (15.5%) higher than budget, as amounts are settled in foreign currencies (primarily in USD) before being converted to AUD, the drop in conversion rates has resulted in more revenue being recorded.

There were lower than budgeted returns of prior year administered expenses reported as revenue of $14.2m (42.5%), which relate to unspent monies from previous funding arrangements. This figure is dependent on acquittals being completed, requires estimations of funding requirements upfront and can be subject to unforeseen circumstances in the delivery that can significantly influence the amounts spent. Accordingly, the actual funds returned and the budget can be difficult to anticipate.

Other Comprehensive Income includes the movements in the re-measurement of defined benefit schemes and the carrying amount of investments (Efic CA and Tourism Australia). The movement is primarily due to the introduction of AASB 9 which resulted in a change in classification from non-monetary available for sale debt instruments to non-monetary equity instruments at FVOCI. This resulted in a $151.0m movement that is not budgeted for as part of PBS process.

The actual cash on hand or on deposit balance reported in the Administered Schedule of Assets and Liabilities includes non-trust special account balances of $36.8m and is higher than estimated due to the appropriation receipt of $29.6m being credited to the Dubai Exposition 2020 special account in late June.

The timing of the preparation of estimates included in the PBS in March can also result in variances to actual results. PBS estimates are prepared in order to be included as part of the Federal Budget, and are based on the current financial year estimates plus adjustments prior to the finalisation of actual balances for the financial year. Significant movements and adjustments that occur late in a financial year are not able to be incorporated into the estimates, resulting in variances.

The impacts of the timing of PBS estimates are most pronounced for both investments and multilateral grants and contributions payables administered on behalf of Government reported in the Administered Schedule of Assets and Liabilities (24.4% and 25% higher respectively) due to revaluation and discounting factors applied at 30 June including the government bond rate and exchange rate fluctuations.