QUEENSLAND TREASURY

# Financial Reporting Requirements for Queensland Government Agencies

## CHAPTER 3 – FRR 3A to FRR 3E

**Applicable to 2025/26 or 31 December 2026 Financial Years**

DELIVERING FOR QUEENSLAND

Queensland Government

# FRR 3A Statement of Comprehensive Income

## INTRODUCTION

*Policy items*, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

*Application guidance*, indicated by normal text under the Application Guidance sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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## 3A.1 STATEMENT OF COMPREHENSIVE INCOME

**REFERENCES**

- AASB 101 *Presentation of Financial Statements*
- FRR 2D *Form and Content of Financial Statements*

**POLICY**

- **Subject to FRR 2D.1, the required line items for the Statement of Comprehensive Income are as outlined in the corresponding model financial statements unless the line items are not applicable to the entity.**
- **Any expense relating to a provision must not be presented net of the amount recognised for a reimbursement.**
- **The net cost of services presentation must not be used.**
- **The line item for "Other" revenue/expenses must not exceed 10% of the total value of revenues/expenses, whichever is relevant.**
- **The Paid Parental Leave Scheme is to be accounted for through the Statement of Financial Position with no transactions recognised via the Statement of Comprehensive Income.**

**APPLICATION GUIDANCE**

Included in the category of "User Charges and Fees" will be rental revenue and proceeds on sale of items of property, plant and equipment that are otherwise used for rental to others, that have been transferred to inventories (at their carrying amount) when the rental arrangement ceases and have become held for sale.

## 3A.2 STATEMENT OF COMPREHENSIVE INCOME BY MAJOR DEPARTMENTAL SERVICES, CBUs AND SSPs

**REFERENCES**

- AASB 101 *Presentation of Financial Statements*
- AASB 1052 *Disaggregated Disclosures*

**POLICY**

- **A separate column for each major departmental service, Commercialised Business Unit (CBU) and Shared Service Provider (SSP) must be included in the Statement of Comprehensive Income by Major Departmental Services, CBUs and SSPs. This statement must be prepared and included in the financial statements of each department that has more than one departmental service.**

- **Major departmental services must accord with those included in that financial year's Service Delivery Statements (SDS), including any approved variations. If the SDS does not disclose any major departmental services, a Statement of Comprehensive Income by Major Departmental Services, CBUs and SSPs must still be prepared as required by paragraph 15 of AASB 1052 if there is more than one major activity.**

- **The Statement of Comprehensive Income by Major Departmental Services, CBUs and SSPs must disclose the expenses and revenues recognised in the (controlled) Statement of Comprehensive Income that can be attributed reliably to each major departmental service, CBU and SSP.**

- **Inter-service/unit trading must be reflected on a gross basis (i.e. before elimination) in the respective departmental services columns and eliminated in the "Inter-service/unit Eliminations" column so as to reconcile with the figures reported in the (controlled) Statement of Comprehensive Income.**

- **Where there has been an approved change in departmental services from the comparative period, this should be disclosed in the notes to the financial statements and restated comparative figures disclosed, unless impracticable, in the Statement of Comprehensive Income by Major Departmental Services, CBUs and SSPs.**

- **Where a department provides material amounts of non-activity related services to other entities on a "fee for service" arrangement, the "General – Not Attributed" column should be used to record the revenues and expenses from these activities.**

**APPLICATION GUIDANCE**

Transactions between major departmental services, CBUs and SSPs should be distinguished from those transactions that are solely within a major departmental service, CBU or SSP.

For the presentation of the separate columns, transactions **between** the identified major departmental services, CBUs and SSPs are reported on a gross basis.

Internal transactions **within** a major departmental service, CBU or SSP column should be presented by agencies in a meaningful way (i.e. either gross or net) as is appropriate in the agency's judgment. In managing this, agencies should consider, in consultation with QAO, the materiality of such transactions and the way they are monitored and reported internally to management.

Corporate revenue and expenses should be presented across major departmental services, CBUs and SSPs on a reliable basis reflecting internal reporting for such items (as applicable).

# FRR 3B Income

## INTRODUCTION

*Policy items*, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

*Application guidance*, indicated by normal text under the "Application Guidance sub-headings", provides support on interpreting and applying the mandatory policy items and other matters.

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# 3B.1 INCOME OF NOT-FOR-PROFIT ENTITIES – GENERAL PRINCIPLES

**REFERENCES**

- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 15 *Revenue from Contracts with Customers*
- FRR 3E Distinction between Grants and Procurement
- FPMS (s.13)

**POLICY**

- **Fees and charges fixed by the accountable officer pursuant to s.13(1)(b) of the FPMS, or other legislation, for goods and services supplied by the department should be recognised as controlled revenue.**

- **If the amount levied by the department is not a fee or charge fixed by the accountable officer pursuant to s.13(1)(b) of the FPMS, or other legislation, for goods and services supplied by the department, it should be recognised as administered revenue and the amounts received remitted to the Consolidated Fund.**

**APPLICATION GUIDANCE**

***Overview of income recognition for not-for-profit agencies***

The following table summarises the accounting standards that will typically apply to the different types of income commonly received by not-for-profit agencies.

| Income line item | Applicable standard/s |
|---|---|
| Appropriation revenue | AASB 1058 |
| User charges and fees | Revenue from contracts with customers – AASB 15<br>Licence revenue – AASB 15<br>Rental income from operating leases – AASB 16<br>Others – AASB 1058 |
| Royalties and land rents | Licence revenue – AASB 15<br>Others – AASB 1058 |
| Taxes | AASB 1058 |
| Grants and contributions | Revenue from contracts with customers – AASB 15<br>Others – AASB 1058 |
| Interest income | Interest income from financial assets – AASB 9<br>Interest income from finance leases – AASB 16 |
| Gains on disposal or revaluation of assets | Property, plant and equipment – AASB 116<br>Intangible assets – AASB 138<br>Financial instruments – AASB 9<br>Foreign currency – AASB 121<br>Investment property – AASB 140<br>Biological assets – AASB 141 |

The remainder of FRR 3B.1 will address accounting for income within the scope of AASB 1058. Agencies should refer to the other sections of FRR 3B for guidance on specific types of income, including FRR 3B.5 on transactions falling within AASB 15.

***Transactions within the scope of AASB 1058***

AASB 1058 establishes the framework for income recognition where a not-for-profit agency acquires an asset for significantly less than fair value principally to enable the entity to further its objectives.

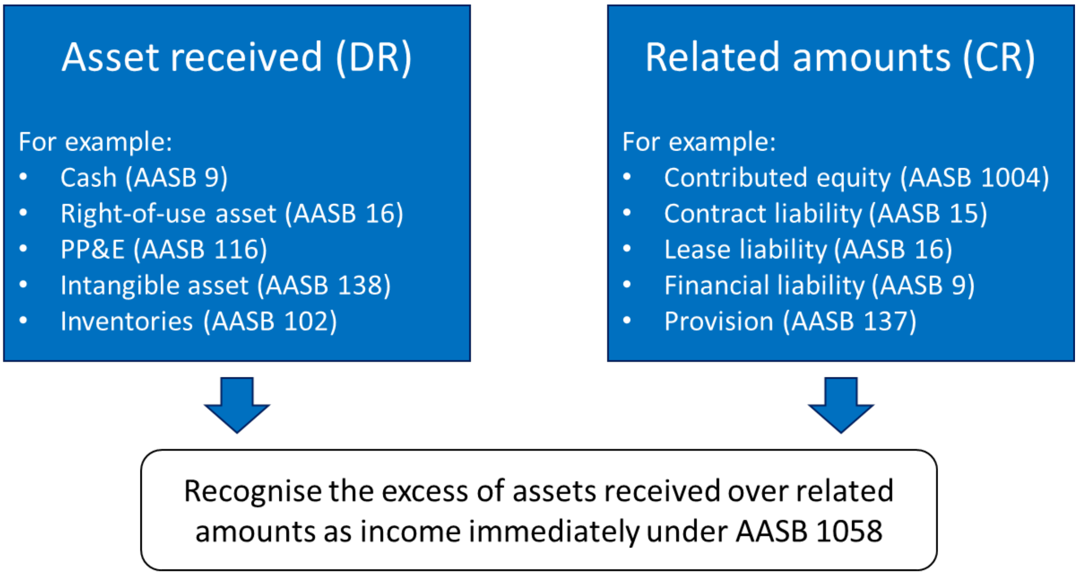
***"Significantly less than fair value" principle under AASB 1058***

The standard does not specify what constitutes "significantly less than fair value" and this requires the exercise of judgement in each circumstance. However, where the consideration to acquire an asset represents less than 70% of the asset's fair value (i.e. a 30% or greater discount), the "significantly less than fair value" criteria would ordinarily be met unless there is compelling evidence to the contrary.

***Revenue recognition under AASB 1058***

AASB 1058 contains specific requirements in respect of capital grants and volunteer services, which are discussed separately below. All other transactions within the scope of AASB 1058 use the revenue recognition model in paragraphs 8 to 14.

The difference between the asset/s received and any credit amounts recognised under other standards (called 'related amounts') is recognised as income immediately.
This is illustrated in the following diagram. (N.B. Related amounts can be nil in some transactions.)




***Taxes, fines and penalties***

AASB 9 Financial Instruments applies to the initial recognition and measurement of statutory receivables, with Appendix C of AASB 9 providing implementation guidance in this respect.

A statutory receivable under AASB 9, and corresponding revenue under AASB 1058, is recognised on the occurrence of the 'taxable event'. Refer to AASB 9 Appendix C and FRR 4E for more details.

Where a tax is prepaid, i.e. prior to the taxable event occurring, the agency should assess whether it has a refund obligation and if so, recognise a financial liability as a related amount. The refund obligation is extinguished and revenue is recognised when the taxable event occurs. See AASB 1058 Illustrative Example 4.

## 3B.2 APPROPRIATION REVENUE-GOVERNMENT DEPARTMENTS

**REFERENCES**

- *Financial Accountability Act 2009* (FA Act) (Part 3)
- AASB 1058 *Income of Not-for-Profit Entities*

**POLICY**

- **The amount of appropriation revenue recognised by a department in a financial year is a matter for the determination of the agency, taking into account the cost of the departmental services which it has delivered during the year.**
- **Unless otherwise negotiated with Queensland Treasury, appropriation revenue should equal the cash appropriations received by the department during the year in accordance with its funding profile.**
- **In the rare instance of a department intending to recognise appropriation revenue receivable or a liability for unspent appropriation revenue at 30 June, any such amount must be negotiated with and agreed by Queensland Treasury.**
- **A reconciliation of payments made from Consolidated Fund to appropriation revenue recognised in the Statement of Comprehensive Income must be provided as a note to the financial statements. The required line items for the reconciliation are as outlined in the corresponding model financial statements.**
- **Transfers of appropriations and appropriations for unforeseen expenditures must be supported by appropriate Treasurer/Governor in Council approvals. Note disclosure is also required for the reasons for any material amounts of unforeseen expenditure.**

**APPLICATION GUIDANCE**

Appropriation revenue, plus own sourced income, should closely equate to total expenses for the year, resulting in a net operating result for the year that is close to zero.

Payments by departments on behalf of the state (sometimes transfer payments) are funded from the Consolidated Fund by way of administered appropriations. Departments should refer to FRR 2E Controlled and Administered Items, Trust Transactions and Agency Arrangements when accounting for administered appropriation revenue.

***Appropriations not received by statutory bodies***

Statutory bodies do not receive appropriations under the FA Act. Generally, any funding from Government to statutory bodies is by way of grants which are accounted for pursuant to AASB 15 or AASB 1058 if the entity is classified as not-for-profit. AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* applies where the entity is classified as a for-profit entity and is dealt with separately in this FRR.

***Appropriated equity adjustments***

Under the FA Act, the owner's interest in a department can be adjusted directly against equity through appropriated equity injections/withdrawals. Such appropriated equity adjustments are determined by the owners of Queensland's wholly-owned public sector entities. The annual Appropriation Bills represent the formal designation required under Interpretation 1038. FRR 4F Equity, Contributions by Owners and Distributions to Owners deals with the accounting requirements for appropriated equity adjustments.

***End of financial year receivables and payables – unspent appropriations***

In relation to any unspent appropriation at year end, s.37(3) of the *Financial Accountability Act 2009* allows departments to **return** these funds to the Consolidated Fund prior to 14 July of each year, and be recognised in the previous year's appropriation revenue. However, current Treasury policy is to ensure funds are returned prior to 30 June each year so no back-dating is required.

After 30 June, as part of the year end accruals process and where it is agreed with Treasury, a department may recognise an asset (appropriation revenue receivable) or a liability (for appropriation revenue unspent at year end and payable to the Consolidated Fund) at 30 June. Where there is both a receivable and a payable from/to the Consolidated Fund regarding multiple factors, it is appropriate to offset those amounts as either a net receivable or net payable. In the following year, the liability payable to Treasury is extinguished one of three ways:

*Option 1*. The department returns the cash to the Consolidated Fund (where there are no other appropriation receipts against which the payable can be offset); or

*Option 2*. Treasury permits the liability payable to be offset against subsequent appropriation made to the department (i.e. there is a net settlement of the liability payable against future cash appropriation receipts); or

*Option 3.* The unspent appropriation payable to Treasury is authorised to be applied as appropriation revenue in the following year.

**Example – Journals involved for each option**

A department agrees with Treasury that $100 of its unspent (or unapplied) appropriation for services at year end will be returned to the Consolidated Fund (CF) the following year. In practice, the department has three options to settle this obligation (i.e. liability) in the following year. (Additional information - The department is to receive appropriation funding of $700 in the first month of the following year (that relates to the following year).

<u>Journals in the Current Year</u>

| | | | |
|---|---|---|---|
| DR | Deferred Appropriation Payable to CF (***Appropriation Revenue***) | 100 | |
| CR | Deferred Appropriation Payable to CF (***Payable***) | | 100 |

*(Representing the unspent appropriation as negotiated with Treasury during the formal year end appropriation reconciliation process)*

<u>Journals in Next Year</u>

**Option 1 – Return cash to CF**

| | | | |
|---|---|---|---|
| DR | Deferred Appropriation Payable to CF (***Payable***) | 100 | |
| CR | Cash | | 100 |

*(Representing the settlement of the obligation by returning the funds to CF - where there are no other appropriation receipts against which the payable can be offset).*

**Option 2 – Net settlement against subsequent appropriation receipts**

| | | | |
|---|---|---|---|
| DR | Deferred Appropriation Payable to CF (***Payable***) | 100 | |
| DR | Cash | | 600 |
| CR | Appropriation Revenue | | 700 |

*(Representing the net settlement of the obligation to repay Treasury against the cash appropriation receipts in the following year. Under Option 2, the appropriation revenue recognised in respect of the following year's income is unaffected by the net settlement of the liability.)*

**Option 3 – Approval for recognition as revenue in the following year**

| | | | |
|---|---|---|---|
| DR | Deferred Appropriation Payable to CF (***Payable***) | 100 | |
| CR | Deferred Appropriation Payable to CF (***Appropriation Revenue***) | | 100 |

*(The unspent appropriation payable to Treasury is authorised to be applied as appropriation revenue in the following year – <u>this journal assumes the cash has not already been physically returned to CF</u> under Options 1 or 2 above. Where this has occurred, the debit entry would be to cash and the credit to appropriation revenue.*

## 3B.3 VOLUNTEER SERVICES AND CONTRIBUTION OF SERVICES BETWEEN AGENCIES

**REFERENCES**

- AASB 1058 *Income of Not-for-Profit Entities*

**POLICY**

- **Not-for-profit departments and statutory bodies within whole-of-government are required to recognise volunteer services in accordance with AASB 1058 paragraph 18.**
- **Agencies shall not recognise volunteer services that would not have been purchased if they had not been donated.**
- **Where an agency receives material corporate services or other support from another agency that can be reliably measured, the fair value of those services is to be recognised as revenue with a corresponding expense.**
- **Where the fair value of those services is not recognised, that recipient agency is to include narrative disclosure about the nature and extent of the arrangement, and the grounds for not recognising the revenue/expense.**
- **An agency that provides volunteer/contributed services shall not recognise any revenue in respect of the volunteer/contributed services provided.**

**APPLICATION GUIDANCE**

***Volunteer services***

Volunteer services that are required to be recognised would typically be recognised as income and an expense, or an asset if the expense qualifies for capitalisation.

***Contributed Services***

Some services donated to an agency e.g. volunteer work, while useful, may not be central to the delivery of the agency's core services. Subject to materiality, contributed services should therefore be recognised only when their fair value can be measured reliably and the services would have been purchased had they not been donated.

Generally, the control of the future economic benefits embodied in contributed services takes place in conjunction with the actual consumption of such benefits. In these circumstances, the appropriate accounting treatment is to recognise revenue and an equal expense.

It is common in the public sector for services to be received/provided at less than their fair value e.g. corporate services partnerships where an agency provides corporate services (such as information technology, human resources, finance, etc.) to one or more other agencies at no cost. In respect of corporate services received, it is expected that the recipient agencies would otherwise have had to acquire such services in other ways.

In such situations, the provider agency should have a process for reliably determining and advising of the cost (as a surrogate for fair value) of services provided to other agencies, especially where the amounts are likely to be material for any of the recipient agencies.

**Accounting by the provider agency**

An agency that provides volunteer or contributed services does not recognise any revenue because there is no basis for any revenue recognition. The agency should only recognise the expenses incurred to provide the service.

For example: Agency A provides IT services to Entity B free of charge. Agency A would recognise employee expenses relating to its IT staff who are providing the services, and depreciation/amortisation expense on equipment and software used to provide the services. Agency A does not recognise any revenue or any additional expenses. Also, Agency A's accounting treatment is not affected by whether the fair value of the services can be measured reliably or whether Entity B would have purchased the services had they not been donated.

## 3B.4 GRANT REVENUE RECOGNITION BY 'FOR-PROFIT' ENTITIES

**REFERENCES**

- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*
- Interpretation 110 *Government Assistance – No Specific Relation to Operating Activities*

**POLICY**

- **Government grants must be shown on the Statement of Financial Position as deferred income which will be matched against future costs on a systematic basis. Grant revenue is to be recognised as income and is not to be offset against the related expense (an alternative treatment under AASB 120).**

- **AASB 120 provides for recognition of granted non-monetary assets at nominal values as an alternative to the fair value method.  This alternative treatment of nominal value is not considered best practice and is NOT to be applied.**

- **Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position by setting up the grant as deferred income, which is recognised as income on a systematic and rational basis over the useful life of the asset.  The treatment of deducting the grant from the carrying amount of the related asset is not considered best practice and is NOT to be applied.**

**APPLICATION GUIDANCE**

For-profit entities recognise income from government grants as required by the recognition criteria of AASB 120, which also outlines the treatment for when a government grant becomes repayable.

Government grants to for-profit entities are generally accounted for on an accrual basis i.e. they are to be brought to account when they are receivable which may be at a different time from the receipt of cash.  The cash basis of accounting may be used if no basis exists for allocating grants to periods other than the one in which it was received (such a circumstance would ordinarily be unusual).

Under paragraph 10A of AASB 120, the benefit received by a for-profit entity from a government loan at a below-market rate of interest shall be treated as government grant and is measured as the difference between the fair value of the loan and the proceeds received.

***Distinction between government assistance to the community versus a specific entity***

The standard also distinguishes between government assistance provided to an entity and assistance provided to the community generally e.g. infrastructure. Examples are provided in paragraph 38 of AASB 120.

Interpretation 110 clarifies that government assistance provided to an entity for operating in certain regions or industry sectors is a government grant and is to be accounted for in terms of AASB 120.

AASB 120 also identifies government assistance that is excluded from the definition of government grants because such assistance cannot reasonably have a value placed on it e.g. government assistance in the form of free technical or marketing advice. Reference should be made to paragraphs 34-38 of AASB 120.

## 3B.5 REVENUE FROM CONTRACTS WITH CUSTOMERS

**REFERENCES**

- AASB 15 *Revenue from Contracts with Customers*

**POLICY**

- **Agencies shall NOT apply the recognition exemptions for short-term and low value licences described in AASB 15 paragraphs Aus8.1–Aus8.5. Instead, agencies are to identify performance obligations and recognise revenue as/when the performance obligations are satisfied, in line with AASB 15's revenue recognition model.**

**APPLICATION GUIDANCE**

***Applicability of AASB 15 to transactions of NFP agencies and Appendix F***

Not-for-profit agencies must apply the implementation guidance in AASB 15 Appendix F *"Australian implementation guidance for not-for-profit entities"* to determine whether a transaction gives rise to revenue from contracts with customers. This guidance is particularly relevant when assessing grants and contributions received, as some transactions will fall within the scope of AASB 15 and others within the scope of AASB 1058.

***Scope of AASB 15***

To fall within the scope of AASB 15:

1. There must be a promise to transfer goods or services to a customer;
2. The agreement must create enforceable rights and obligations; and
3. The promise/s must be sufficiently specific to be able to determine when the performance obligation is satisfied.

***1. Transfer of goods or services to a customer***

"Customer" is defined in AASB 15 as a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. A customer can direct the entity to provide goods or services to third parties on the customer's behalf, so the goods or services need not be provided directly to the paying entity/person for there to be a contract with a customer.

Grant arrangements where the agency retains the output of the activities (e.g. a constructed asset) for its own use will be outside the scope of AASB 15 as they do not involve a transfer of goods or services to a customer.

Goods and services are assets that embody benefits, even if only momentarily (as is in the case of many services). Some statutory fees create legislative obligations for the levying agency to carry out activities that are solely for the benefit of the general public, and not for the entity/person paying the fee. These fees do not involve a transfer of goods or services to the customer.

An agency may be party to a contract, but it has no obligation or control over the transfer of goods or services to the customer – rather, its obligations are solely limited to the transfer (or 'pass through') of cash between other parties. Agencies should carefully examine such arrangements as the transaction may not involve recognition of any revenue under AASB 15 or AASB 1058 – instead, the agency may have a financial liability under AASB 9 for monies to be passed on or, in the case of a department, an Administered transaction to account for. Further information on the pass-through of grants and accounting for Administered items is contained in FRR 2E.1.

***2. Enforceable agreement***

Statements of intent to spend money or use assets in particular ways are in the nature of public policy statements that do not, by themselves, create enforceable agreements. Examples here include budgets and service delivery statements.

The following specific types of revenue are not enforceable, and therefore are outside the scope of AASB 15:

- Taxes and fines do not create obligations enforceable against the levying agency by legal or equivalent means, even where they are raised in respect of specific goods or services.

- The system of appropriations in Queensland does not create enforceable obligations for departments in respect of appropriations received.

- An agreement is often enforceable where there is a requirement to refund grant monies if they had not been spent on specified performance obligations. However, a requirement to refund monies that are not spent within a specified time period does not, by itself, give rise to an enforceable agreement.

Example: Under a multi-year grant agreement, the grantor may choose to reduce future funding to the agency instead of requesting a refund. In this situation, there'd be an enforceable agreement if the <u>grantor</u> can reduce future funding to which the agency <u>is presently entitled</u> - effectively the grantor is settling the refund obligation on a 'net' basis. However, the grantor withholding future funding to which the agency is <u>not presently entitled does not</u> demonstrate enforceability.

It is not relevant that the grantor has historically not enforced similar agreements (e.g. they've not asked for refunds), as enforceability is assessed on the grantor's capacity and rights to enforce. An agreement may be partially enforceable, for example, if only a portion of the grant is subject to refund if specified activities are not performed. In this case, the agency may need to recognise a contract liability under AASB 15 for the enforceable portion, and income under AASB 1058 for the non-enforceable portion.

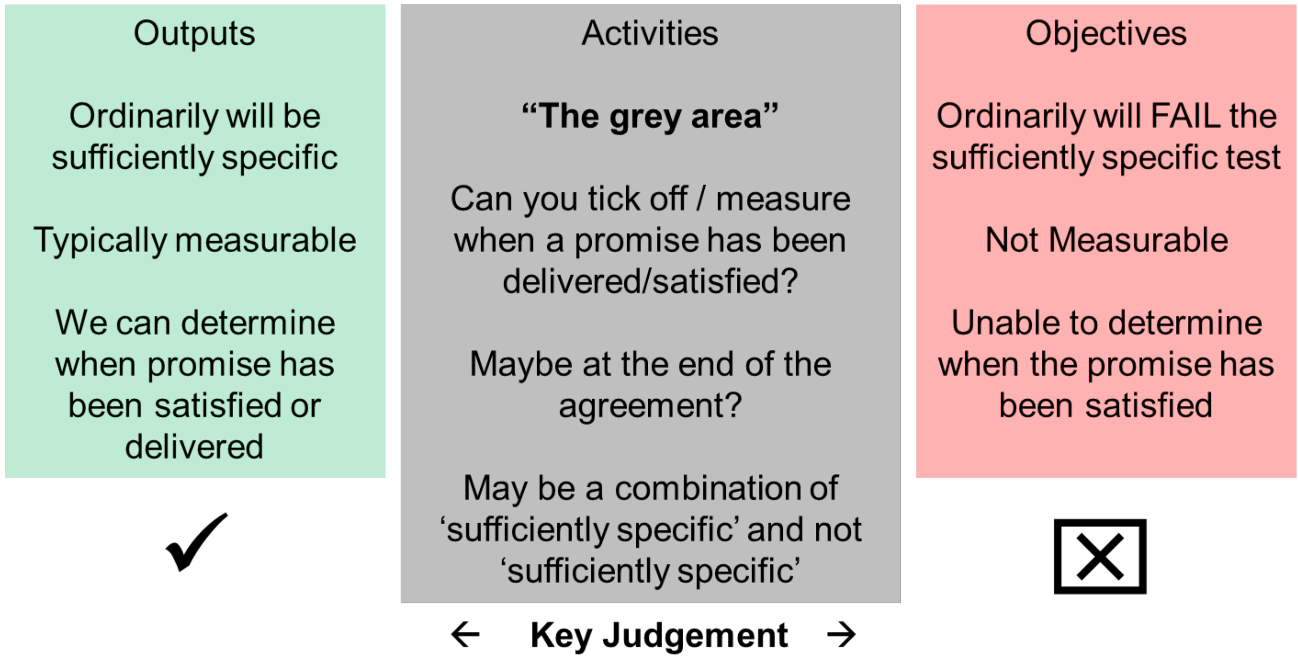
### ***3. Sufficiently specific performance obligations***

For promises to be sufficiently specific performance obligations, the agency must be able to determine (i.e. measure) when, or to what extent, the obligation is satisfied (i.e. completed or the percentage of completion) at any point in time. This is essential in providing the basis for revenue recognition under AASB 15. In addition, the goods or services to be provided must be specified or quantifiable and not be at the discretion of the agency.

In making this assessment, agencies must apply judgement, including taking into account any conditions specified in the contract regarding the following aspects:

- The nature or type of the goods/services
- The cost or value of the goods/services
- The quantity of the goods/services
- The period over which the goods/services must be transferred

Agencies may find it useful to classify deliverables/promises into three distinct categories:




*Outputs* (for example, the delivery of 1000 park shelters) are normally straightforward to measure and will typically meet the sufficiently specific criteria (unless the agency has no way of measuring when the promise has been satisfied or delivered, in which case the test would be failed). On the other hand, general, high level *objectives* or aspirational targets (for example, "improving literacy rates"), will typically fail the test.

Judgement will often be required when the promise is in the form of *activities* (for example, conducting a childhood vaccination program). Identifying whether activities are measurable may be straightforward or difficult in practice. To be sufficiently specific, agencies must be able to reliably measure <u>at any point in time</u> their progress in fulfilling the promise/s embodied in those activities to the customer.

***Agreements with mixed activities, outputs and objectives***

An agreement or program can sometimes contain a mixture of sufficiently specific activities and other more general activities that do not meet the sufficiently specific criteria. It may be necessary to first 'unbundle' a program of activities into the measurable outputs and general objectives to identify those activities that do not fit neatly into either category. The remaining activities comprising the program would then be considered as to whether they are measurable and have, on balance, sufficiently specific characteristics that would meet the AASB 15 requirements. Activities for which the percentage of completion (or fulfillment of the promise) cannot be reliably measured are expected to fail the sufficiently specific requirement.

***Acquittal procedures and milestone reporting***

The agreement may require an acquittal process for the recipient to demonstrate progress towards transferring the goods or services. Periodic progress reporting may assist agencies with measuring its progress towards satisfying performance obligations (i.e. it may provide evidence that the promise to transfer goods/services is sufficiently specific), however such reporting obligations themselves are not considered separate performance obligations.

***General obligations to spend money***

An obligation to 'spend money' alone does not constitute a performance obligation, since AASB 15 is about the goods or services the agency is required to transfer to a customer in return for the funding received. Agencies should refer to illustrative examples in AASB 1058 (Examples 3, 6, 7 & 8) and AASB 15 (Australian Examples 2 to 5) for examples of agreements that do and do not contain sufficiently specific performance obligations.

***AASB 15's five-step revenue recognition model***

In applying the five-step model in AASB 15, agencies should refer to Appendix F of AASB 15 "Australian implementation guidance for not-for-profit entities". Some of the key common judgements and considerations that agencies may encounter in each of the five steps are provided in the following table.

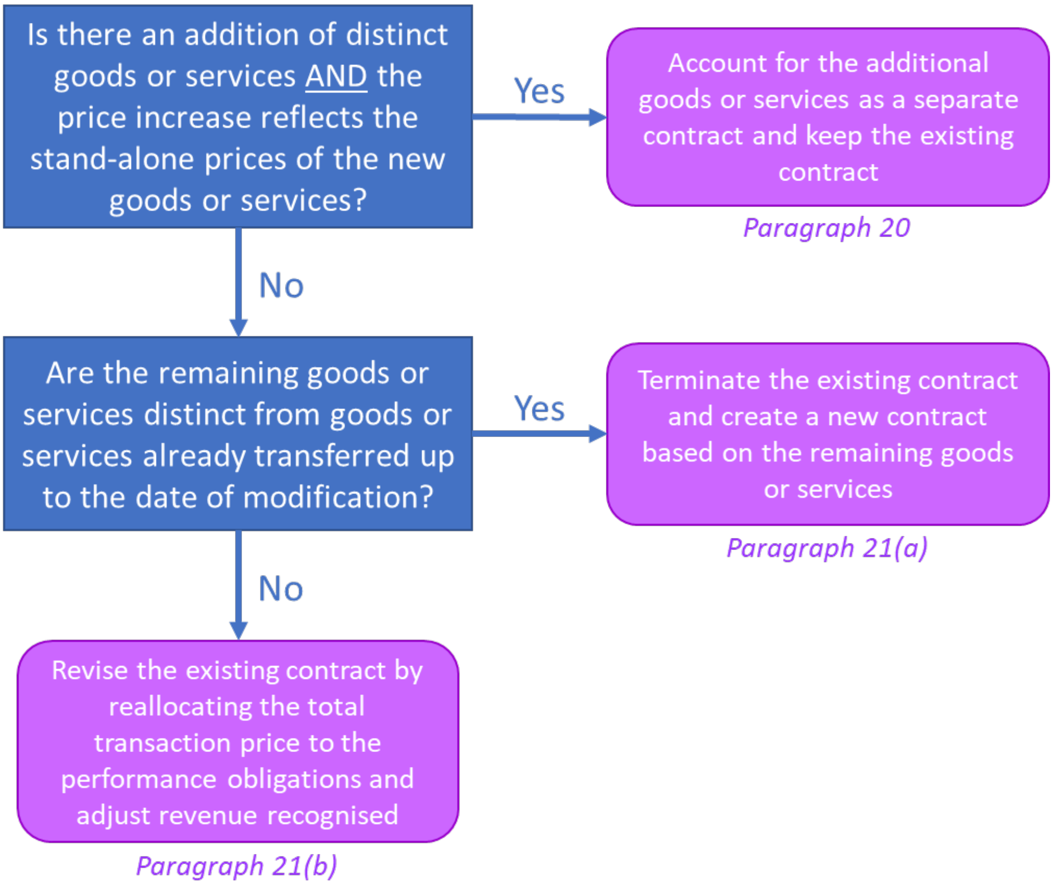
| Step | Key judgements and considerations |
|---|---|
| Step 1 – Identify the contract with a customer | This step is <u>not required for licence revenue</u> as they are <u>automatically in scope</u> (para. Aus5.2). Agencies should apply the licence versus tax assessment instead (para. G3)<br><br>Appropriations, taxes and fines are not enforceable and are out of scope of AASB 15.<br><br>Should two or more related contracts be accounted for as a single contract for the purposes of AASB 15? (para.17)<br><br>When a contract is modified, consider the guidance on contract modifications below. (para.18-21) |
| Step 2 – Identify performance obligations | Where the agency provides multiple goods or services under the contract:<br>Is each good or service distinct or should they be combined with other goods or services to form a distinct bundle of goods or services? (para.27-30)<br>Does each distinct good or service form a single performance obligation? (para.22-23)<br>For each performance obligation, is the agency acting as principal or agent? (para. B34-B38) |
| Step 3 – Determine the transaction price | Have you adjusted the transaction price for expected refunds? (para.55, B20-B27)<br><br>Is it highly probable that a significant reversal in the amount of revenue will not occur? (para.56)<br><br>Where there is a greater than 12 months timing difference between payment and transfer of goods or services, consider whether you need to adjust the transaction price for the financing component. (para. 60-65)<br><br>Did you receive any non-cash consideration for the goods or services? (para. 66-69) |

| Step | Key judgements and considerations |
|---|---|
| Step 4 – Allocate transaction price to performance obligations | Where more than one performance obligation is identified in Step 2:<br>How will you determine the stand-alone selling prices of each distinct good or service? (para. 76-80)<br>Do any variable consideration relate to the entire contract or only to specific performance obligations? (para. 84-86) |
| Step 5 – Recognise revenue when/as the entity satisfies each performance obligation | What is the good or service you are transferring?<br><br>Is control of the good or service transferred over time or at a point in time? – Apply the criteria in para. 35 and consider the indicators of transfer of control in para. 38 (para. B2-B13)<br><br>Where a performance obligation is satisfied over time, how will you measure progress? (para. 39-43, B14-B19)<br>Will you use an output method or an input method?<br>Output methods should be used where possible without undue cost |

Note that the timing of revenue recognition under AASB 15 may not coincide with the timing of expenses incurred. <u>Agencies should NOT assume that, just because a transaction falls under AASB 15, they will be able to achieve matching of revenue and expenses.</u>

***Contract modifications***

When a contract with a customer is modified in terms of the scope, the price, or both, the appropriate accounting treatment is determined in accordance with AASB 15 paragraphs 20-21, which is summarised in the following flowchart.




***Licences revenue (AASB 15 Appendix G)***

Accounting for revenue from licences issued by not-for-profit public sector entities, (for example, driver's licences, blue cards, casino licences, etc.) are *within the scope* of AASB 15, irrespective of whether the licences are contracts with customers.

Licence revenue is recognised by applying the five-step model in AASB 15. Appendix G contains guidance on identifying performance obligations in relation to licence revenue. Most commonly, the sole performance obligation the agency will have is to issue the licence to the licensee. In this case revenue will be recognised when the licence is issued.

*(a)* *Difference between a licence vs a tax*

One of the differences between licences and taxes is that licences are 'discretionary' while taxes are 'compulsory'. This difference can be illustrated by the consequences of avoiding payment of the licence fee or tax, for example:

- Casino licence – If an entity operates a casino without a licence, they can be fined but they cannot be compelled to retrospectively obtain a licence and pay a licence fee. The entity may not in fact be eligible to obtain a casino licence.

- Gaming tax – If an entity earns gaming income and does not pay the tax, they can be compelled to pay the tax plus any interest or penalties owed.

*(b)* *Identifying performance obligations in licences*

In relation to licences, the following are not performance obligations:

- An exclusivity promise is not a performance obligation, rather it is an attribute or feature of the licence. For example – a promise to not issue a similar licence to another party and to ensure no other parties engage in the activities that the licensee has an exclusive right to.

- Enforcement or policing/monitoring activities undertaken to benefit the general public rather than the licensee are not performance obligations because they do not transfer goods or services to the licensee. For example – activities to ensure the licensee is not carrying out illegal activities or to ensure the licensee continues to meet eligibility requirements.

*(c)* *Licence fees that are refundable if the licensee cancels their licence*

Some licences fees may be partially refundable (e.g. on a pro-rata basis) if the licensee decides to cancel their licence at any time.

A refund obligation alone is not sufficient to defer revenue recognition over the licence period. Agencies should instead apply paragraph 55 of AASB 15 and estimate a portion of the licence fee that is expected to be refunded and recognise that portion as a refund liability. For example, if, based on historical data, 5% of licence fees end up being refunded, the agency would recognise a $1000 licence fee as $950 revenue and $50 refund liability. The refund liability is debited when refunds are paid. The refund liability must also be reassessed and updated at the end of each reporting period, with any adjustments taken to revenue.

In rare circumstances where an agency cannot reliably estimate the expected refunds, for example for a new type of licence, the full licence fee is to be recognised reflecting the applicable performance obligation(s) until sufficient historical data becomes available. Paragraph 55 must be applied as soon as a reliable estimate of refunds can be made.

*(d) Amounts charged for conduct of licenced activities*

In addition to the licence fee, the licensee may also need to pay amounts to the State for as a result of conducting licenced activities. For example, a mining company would pay a licence fee for the permission to undertake mining activities and pay royalties for what they mine.

Where the amount payable (in the form of a fee, tax, royalty etc) is separately prescribed in legislation or regulation that is not specific to the licensing arrangement with the licensee, it is ordinarily considered a tax and is accounted for separately from the licence fee. Taxes are recognised as income under AASB 1058 when the taxable event occurs. (Refer to FRR 4E for guidance on taxable events and the timing of recognition of statutory receivables.)

Where the performance of licenced activities is entirely within the control of the licensee (including decisions about whether and how much activities to conduct), agencies should only recognise revenue/receivable when the activities are conducted. This is because, prior to the activities occurring, the agency does not ordinarily control a receivable asset as it is dependent on future performance of the licensee (i.e. the ‘past event’ has not yet occurred).

*(e) Fees charged for licence eligibility assessments*

Fees paid by prospective licensees to demonstrate to the agency or for the agency to assess whether they are eligible to obtain a licence are not licence revenue, because they do not directly give the prospective licensee a right to perform an activity or access an asset. Agencies should apply the standard AASB 15 scope criteria to assess whether these fees are revenue from contracts with customers or AASB 1058 income.

## 3B.6 GAINS RECOGNISABLE IN OTHER INCOME ON DERECOGNITION OF NON-FINANCIAL ASSETS

**REFERENCES**

- AASB 101 *Presentation of Financial Statements*
- AASB 116 *Property, Plant and Equipment*
- AASB 138 *Intangible Assets*
- AASB 140 *Investment Property*
- Non-Current Asset Policy (NCAP) 6 Disposal of Non-Current Assets

**POLICY**

- **Net gains on derecognition of assets must be reported as income. Net losses on derecognition of assets must be reported as an expense.**
- **For the purposes of recognition in the Statement of Comprehensive Income, the net gain/loss is to be determined separately for:**
  - **Property, plant and equipment;**
  - **Investment property; and**
  - **Intangibles.**

**APPLICATION GUIDANCE**

The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of the agency. Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an agency. Gains are to be reported separately from revenue in the Statement of Comprehensive Income. Refer to NCAP 6 and AASB 138 for further information.

# FRR 3C Employee Benefit Expenses and Key Management Personnel Remuneration

## INTRODUCTION

*Policy items*, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

*Application Guidance*, indicated by plain text under the “Application Guidance” sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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# 3C.1 ACCOUNTING CATEGORISATION

**REFERENCES**

- AASB 119 *Employee Benefits*

**APPLICATION GUIDANCE**

***Consultants and temporary contractors are not employees***

For the purpose of AASB 119, consultants and other persons who are not subject to the direction of the agency are not deemed to be 'employees'.

Payments made to recruitment firms for the procurement of services provided by temporary contractors are not employee benefits for the purposes of AASB 119. Where an agency contracts directly with recruitment firms to procure services (via provision of a temporary contractor), this is a procurement of supplies and services. In this situation, the temporary contractor is an employee of the recruitment firm and therefore payments made in this regard cannot be recognised as an employee cost by the agency.

***Accumulating and vesting entitlements***

Employee benefits are either accumulating or non-accumulating, vesting or non-vesting. Vesting entitlements are those where employees are entitled to a cash payment for unused entitlements on leaving the entity, e.g. annual leave. Non-vesting entitlements do not entitle employees to a cash payment for unused entitlement on leaving the entity and are paid only on the occurrence of an event e.g. sick leave.

Agencies should be aware of the different criteria within Accounting Standards for measuring short term and long term employee benefits under AASB 119 (discussed below) and classifying employee benefits between current or non-current for financial statement presentation under AASB 101 (discussed in FRR 4C.2).

***Short-Term Employee Benefits***

Short-term employee benefits are those benefits that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees rendered the related service.

Short-term employee benefits include wages, salaries, levies paid to the ALCS (where applicable), paid sick leave, bonuses and non-monetary benefits. For agencies not in the ALCS, annual leave is classified as a short-term employee benefit only when the entire annual leave liability for the agency meets the short-term employee benefit definition of AASB 119.

If any part of a class of employee benefits is expected to be settled beyond that timeframe, the entire class of benefit will need to be categorised as one of the following types of employee benefit.

***Post-Employment Benefits***

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. Post-employment benefits include pensions and lump sum payments on retirement, etc.

***Other Long-Term Employee Benefits***

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits. Other long-term employee benefits include long-service leave, sabbatical leave, long-term disability benefits, etc.

For agencies not in the ALCS, annual leave is classified as an "other long-term employee benefit" when the entire annual leave liability for the agency does not meet the definition of a short-term employee benefit.

***Termination Benefits***

Termination benefits are employee benefits that arise either as a result of an agency's decision to terminate employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

## 3C.2 EMPLOYEE EXPENSES

**REFERENCES**

- AASB 119 *Employee Benefits*

**POLICY**

- **Employee expenses disclosed in the notes must include wages and salaries, annual leave levy/expense and (if applicable) sick leave expense.**
- **Any salary recouped by an agency must be recorded as a reduction in employee expenses.**

- **Redundancy/termination benefits must be recognised as an expense and disclosed in the Employee Expenses note within "Other Employee Benefits". However, separate disclosure of these benefits is required if their amount is material when compared to total Employee Expenses.**

- **The expense recognised for the levy payable to the Annual Leave Central Scheme, Long Service Leave Central Scheme, the employer contribution to the central superannuation scheme and the WorkCover premium expense must be separately disclosed in the notes.**

- **Disclosure is required of the number of full-time equivalent employees at reporting date (reflecting Minimum Obligatory Human Resource Information (MOHRI)) including full-time, part-time and casual employees, but not contractors. No adjustment is required for overtime.**

**APPLICATION GUIDANCE**

Employer superannuation contributions, annual leave levies and long service leave levies are regarded as employee benefits in accordance with AASB 119.

***Employee related expenses***

Costs that are a consequence of employing employees but are not counted towards an employee's total remuneration package are not employee benefits e.g. payroll tax (in the case of commercialised business units and statutory bodies) and workers' compensation insurance. To assist users in calculating the total employee related expenses, agencies should recognise these costs as 'employee related expenses' and disclose them separately from 'employee benefits'.

***Employee Transfers***

The guidelines for the LSLCS and the ALCS explain the financial implications of transfers of employees. This topic is discussed in FRR 4C Employee Benefits Liabilities.

For non-member agencies of either scheme, the main accounting implications are that, to the extent that cash is not transferred, income or expenses are to be recognised in respect of leave entitlements transferred to another agency or acquired from another agency respectively.

***Seconded Staff***

Payments made for staff on secondment from other agencies or otherwise employed by an agency on a non-permanent basis e.g. temporary and casual employees, should be included in the total for wages and salaries in the note relating to employee expenses.

Payments received for staff on secondment should be offset against wages and salaries expenses to ensure the reported expenses reflect the actual wages and salaries incurred for staff working for the agency in that financial year.

Where an employee is on secondment and there is a recoupment of employee expenses borne by the employee's usual agency, GST is not applicable to the transaction.

***Redundancy and Termination Benefits***

Redundancy/termination benefits disclosed for all employees (including for KMP) are to exclude payouts of unused leave entitlements.

***Paid Parental Leave***

The national Paid Parental Leave scheme came into effect on 1 January 2011. The scheme is funded by the Australian Government and provides Parental Leave Pay to mothers and other primary carers who have been in the paid workforce and who have a baby or adopt a child on or after 1 January 2011.

Parental Leave Pay is in addition to any other obligation the Queensland public sector may have to its employees. Parental Leave Pay is taxable and recipients will usually be paid in arrears. Queensland public sector agencies will be required to withhold Pay As You Go (PAYG) amounts and provide Parental Leave Pay to the employee in accordance with the usual pay cycle. Further information on the Paid Parental Leave scheme is available at:
https://www.servicesaustralia.gov.au/paid-parental-leave-scheme-for-employers

Amounts received in relation to the Paid Parental Leave scheme are held by the agency in an agent capacity. As such, receipts of such funds are not considered to be revenue for the agency, nor are payments of these amounts considered to be expenses of the agency.

Transactions in relation to the Paid Parental Leave are to be recognised on the Statement of Financial Position. That is, a current liability (payable) is recognised immediately upon receiving Paid Parental Leave amounts (i.e. Dr Cash, Cr Payables). The payable is extinguished as payments are made to the Australian Tax Office for PAYG amounts and to the employee (i.e. Cr Cash, Dr Payables).

Cash flows relating to the scheme are to be recognised as part of 'Cash flows from operating activities – Other' on the Statement of Cash Flows.

## 3C.3 DISCLOSURE OF KEY MANAGEMENT PERSONNEL (KMP)

**REFERENCES**

- AASB 10 *Consolidated Financial Statements*
- AASB 110 *Events after the Reporting Period*
- AASB 119 *Employee Benefits*
- AASB 124 *Related Party Disclosures*

**POLICY**

- **Agencies must present comparative disclosures about their KMP (contrary to the prospective application provisions in paragraph Aus28.2 of AASB 124).**
- **Agencies identified as a "department" in a Departmental Arrangements Notice (DAN) must disclose their responsible Minister(s) (using their full portfolio title) as part of their KMP, solely for the identification of KMP under this policy.**
- **All other agencies required to comply with the FRRs must determine whether their responsible Minister (if relevant) meets the AASB 124 KMP definition in respect of their agency. Where that is the case, that Minister (using their full portfolio title) must be disclosed as part of that agency's KMP, solely for the identification of KMP under this policy.**
- **The notes to the financial statements must disclose the position title and a concise description of responsibilities for each <u>non-Ministerial</u> KMP position.**

**APPLICATION GUIDANCE**

Agencies must comply with the requirements of this policy in conjunction (and over and above) the disclosure requirements of AASB 124. It should be noted that Crown Law advice received in 2011 concluded that the application of the KMP and remuneration disclosure policies does not conflict with the *Right to Information Act 2009* (Qld), the *Information Privacy Act 2009* (Qld) or any other piece of State or Australian Government legislation.

***<u>Identifying KMP</u>***

For the purposes of the KMP disclosure policies, an agency's KMP are to be identified according to the definition and criteria articulated in AASB 124, according to the judgement of individual agencies. It would be anticipated that the positions identified as KMP for the purposes of AASB 124 compliance would normally align with the information on "executive management team" set out in the Annual Report in accordance with the *Annual Report Requirements for Queensland Government Agencies*.

The identification of KMP is not intended to be based on strict legal interpretations of responsibilities. As legal responsibilities may be delegated, the identification should be based on the day-to-day operational practices. For the purposes of AASB 124, KMP should **exclude** senior executives who, in general, have **no** role in the planning, directing and controlling of the agency as a whole.

Other senior executive positions that are responsible for their individual areas, and <u>not</u> involved in planning, directing and controlling the activities of the agency as a whole, should <u>not</u> be classified as KMP. Similarly, other staff who hold a titled position of Director but are <u>not</u> involved in planning, directing and controlling the activities of the agency as a whole, should <u>not</u> be classified as KMP.

***<u>Identifying KMP – temporary/relieving arrangements</u>***

In respect of temporary/relieving arrangements, the position should only be included in KMP disclosures if the staff member concerned was involved in planning, directing and controlling activities for the entire agency for a <u>material part</u> of the financial year.

For example, meeting the KMP definition for a total of four weeks during the financial year <u>should not</u> be considered a material part of the year. Conversely, meeting the KMP definition for a six month period <u>would</u> be a material part of the year. However, agencies have the discretion to provide additional disclosure for personnel occupying significant positions that fall outside the AASB 124 definition. The disclosure in relation to these personnel should be clearly distinguishable.

***<u>Identifying KMP – economic entity/consolidated groups</u>***

Within a set of consolidated financial statements (and where controlled entities are not consolidated due to materiality), the KMP of the parent are likely to effectively be KMP of the consolidated group. On that basis, KMP disclosures in consolidated financial statements should solely reflect KMP of the parent entity.

Where a controlled entity is itself a reporting entity, that controlled entity needs to prepare its own general purpose financial statements that comply with (at least) AASB 124 from its own perspective.

***Change in KMP resulting from a MoG Change***

Professional judgement is required in determining who meets the KMP definition*, especially* in the context of a department's structure before and after any moG changes.

Reported remuneration for the transferred position in the transferor department's financial statements will only reflect remuneration from the beginning of that relevant financial year until the effective date of the moG.

For the transferee department, reported remuneration for the transferred position will reflect:

- for a ***newly established*** department, remuneration for the position from the new department's commencement date to the end of the reporting period, as per s.80(2) of the FA Act; or

- for a ***continuing department***, remuneration for the position from the effective date of the moG transfer to the end of the reporting period.

Departments should ensure this note also includes a cross-reference to associated note disclosures about the moG change.

Where remuneration costs for a key management position are reflected in another department's expenses prior to a moG change, the transferee department should disclose in a footnote which department is including such costs in its reported expenses, and the total dollar amount of such remuneration for each relevant key management position.

***KMP Shared between Agencies***

For some agencies, some or all KMP are shared with other agencies – guidance on dealing with disclosures in that situation is set out under FRR 3C.4 below. In some situations, a person may be a KMP of one agency while providing non-KMP services to another agency. For the latter agency, costs incurred in respect of that position should not appear in the KMP note (any such costs would only be included in Employee Expenses).

***Ministers as KMP of agencies***

Where a Minister meets the KMP definition in respect of an agency (as per this FRR 3C.3), reference should be made to the relevant model financial statements for suggested disclosures about the Minister. Where an agency (other than a department) determines that its responsible Minister does not meet the KMP definition, no disclosure about the Minister is to be included in that agency's KMP note.

Assistant Ministers do not meet the KMP definition, due to their responsibilities as per the Cabinet Handbook.

Agencies other than departments (as per a DAN) are required to make their own determination about their Minister being part of their KMP, due to the varying legislative/operational arrangements that exist for such agencies. This also applies to agencies that might be regarded as a "department" for purposes other than Departmental Arrangements Notices. Agencies other than departments (as per a DAN) should make their determination about their Minister based on a review of the agency's enabling legislation (where applicable) and current practice.

***Ministers as KMP of Government Owned Corporations***

Cabinet has agreed to the position that shareholding Ministers are KMP of their respective Government Owned Corporations. Examples of indicators that are relevant in this respect include:

- what operational matters (if any) must be approved by the Minister;
- what consultation must occur with the Minister, and about which activities;
- what directions the Minister can issue to the agency; and
- what type of reporting must go to the Minister about operational/financial matters etc.

In each case, the nature of the matters/activities/directions etc is important - akin to the distinction between the concepts of substantive rights and protective rights in Appendix B (Application Guidance) of AASB 10. When assessing enabling legislation for the rights of a Minister over an agency, consideration should be solely on whether those powers exist, not whether or how often those powers are exercised.

The policies in this FRR 3C.3 regarding disclosure of Ministers as a member of an agency's KMP are the result of:

- the substantial guidance for not-for-profit public sector entities included in the current version of AASB 124;

- the *Constitution of Queensland 2001* - which indicates that the administrative units of Government (i.e. departments) are administered by the respective Minister(s);
- the Cabinet Handbook - which states "*Ministers administer, and are responsible for, their departments of State*" and "*Ultimate responsibility for departmental management rests with Ministers who are legally and politically accountable to the Parliament for the administration of their department(s)*";

- Administrative Arrangements Orders (AAOs) issued by the Governor in Council under the *Constitution of Queensland Act 2001* state that each Minister is to administer the matters (set out next to the respective Ministers' titles) in the AAO (an AAO lists the statutory bodies and departments administered by each Minister); and

- the application of the KMP definition by other States/Territories and the Australian Government.

## 3C.4 KEY MANAGEMENT PERSONNEL (KMP) REMUNERATION EXPENSES

**REFERENCES**

- AASB 110 *Events after the Reporting Period*
- AASB 119 *Employee Benefits*
- AASB 124 *Related Party Disclosures*
- FRR 2B *Materiality*

**POLICY**

- **Agencies must present comparative disclosures about KMP remuneration expenses/disclosures (contrary to the prospective application provisions in paragraph Aus28.2 of AASB 124).**

- **For each KMP, the following expenses must be disclosed as a minimum, by category:**

  **(i) Short term employee expenses, for the period during which the employee occupied the KMP role, including:**

  - **Wages, salaries, sick leave, allowances recognised as an expense, performance pay recognised as an expense for the year, and non-monetary benefits (including fringe benefits tax) including motor vehicle, housing, goods and/or services received from the KMP's employing agency etc (to the extent that any such non-monetary benefits are, in substance, remuneration of the individual);**

  - **Where the agency is a member of the Annual Leave Central Scheme (ALCS), levies expensed;**

  - **Where the agency is not a member of the ALCS and the agency's entire annual leave liability meets the definition of a short term employee benefit, the amount of annual leave entitlements earned and expensed for**

**the period during which the employee occupied the KMP role.**

**(ii) Long term employee expenses for the period the employee occupied the KMP role:**

- **Long service leave entitlements earned (where the agency participates in a central leave scheme, this only relates to the levies) and recognised as an expense.**

- **Where the agency is not a member of the ALCS and the agency's entire annual leave liability does not meet the definition of a short term employee benefit, the amount of annual leave entitlements earned and expensed.**

**(iii) Post-employment expenses, for the period the employee occupied the KMP role:**

- **Employer superannuation contributions recognised as an expense for the year.**

**(iv) Termination expenses**

**(v) Performance Payments**

- **In respect of performance payments, the following must be disclosed:**

  - **a description of the basis for payment for performance payment entitlements and the date the performance payment was paid, for each key management person; and**

  - **the performance payments recognised as an expense for the year in relation to KMP in aggregate.**

- **Where performance payment entitlements relating to the reporting period will be determined during the following financial year, affected agencies must disclose that fact, and include an explanation of progress with the performance assessment process as at the date the financial statements are certified by management.**

- **For those agencies where any KMP are conditionally entitled to performance payments at the end of the reporting period, the narrative disclosure in the KMP note must include:**
    - **the maximum potential performance payment that each relevant key management person may receive in dollar terms;**
    - **an overview of the performance assessment process; and**
    - **a brief explanation of the basis for performance payment entitlements.**
- **If none of an agency's KMP has a remuneration package that includes potential performance payments, the agency's KMP note needs to state this clearly.**
- **Prior year comparative information is required for all KMP performance payments**

- **In all situations where a key management position is shared, agencies must include a footnote to the Key Management Personnel note explaining the arrangements for sharing this position, including the name of the other agency and whether (and how) agencies are bearing the associated costs.**

**APPLICATION GUIDANCE**

Agencies must comply with the requirements of this policy regarding KMP remuneration expenses, over and above the disclosure requirements of AASB 124.

Amounts disclosed in the Employee Expenses note to the financial statements should equal the amount expensed in the Statement of Comprehensive Income. For consistency, **<u>the figures disclosed in the KMP note should also reflect the cost of that KMP's remuneration that is reflected in the agency's net reported expenses</u>** (i.e. after any reimbursements/recoveries of amounts debited to employee expense general ledger accounts). The objective of AASB 124 focuses on the financial impact on the agency (in an accrual accounting sense) during the respective reporting periods that is attributable to key management positions.

Amounts reported for KMP of annual leave and long service leave included in the remuneration expenses note follow the same principle. **Amounts included in reported remuneration figures are not intended to reflect the amount of annual/long service leave physically taken by the KMP during the year or paid out on cessation of employment.**

Where an employee/board member commenced or ceased in a KMP role during the reporting period (including the comparative period), as reflected in the remuneration expenses disclosed, agencies should include in the remuneration table the date of commencement/cessation of that person as KMP. This also applies to temporary/relieving arrangements.

For those KMP employed as part of the Senior Executive Service under the *Public Sector Act 2022*, the total annual motor vehicle benefit provided (including the fringe benefits tax paid) is assumed to be equal to the equivalent vehicle allowance that forms part of the SES Remuneration Rates - refer to directive *"Senior Executive Service – Employment Conditions"* released by the Public Sector Commission.

This is on the basis that the directive *"Executive Remuneration Package – Motor Vehicles and Allowances"* provides that where the grossed-up value is less than their allowance, the difference will be paid to the executive as part of their fortnightly salary but will not be recognised for the purposes of superannuation, etc. (Directives can be found at: https://www.forgov.qld.gov.au/pay-benefits-and-policy/directives-policies-circulars-and-guidelines )

Agencies should take into consideration information collected via related party declaration processes regarding goods and/or services received by the KMP themselves from their employing agency. To the extent that the KMP did not pay arm's length consideration for those goods/services, and these are treated as non-exempted reportable fringe benefits, these may constitute non-monetary benefits that are more appropriately reflected in reported remuneration expenses (rather than being separately disclosed as a related party transaction).

In respect of temporary/relieving arrangements, the expenses to be disclosed in the KMP note should directly relate to the period of time during which an employee undertook all responsibilities described in the KMP definition. Refer to FRR 3C.3 for guidance about who should be identified and disclosed as a KMP, including in respect of temporary/relieving arrangements.

***KMP Shared between Agencies***

If the incumbent of a position provides services to more than one agency, professional judgement is required as to whether that position meets the KMP definition for each agency separately. Consistency in disclosures between those agencies sharing key management positions is strongly recommended. For example:

- If agencies actually share the costs of a key management position (e.g. according to the relative estimated percentages of time the incumbent spends on each agency) – the figures in the KMP note should reflect the costs each agency actually incurred, as reflected in its reported expenses.

- If an agency is bearing 100% of the costs of a key management position that is shared with one or more other agencies – the figures in the KMP note should reflect that 100% of the remuneration cost.

- If an agency bears no costs in relation to a key management position, it should disclose that position's details in the KMP note, with the various columns referencing an explanatory footnote.

***Disclosing Ministerial KMP remuneration***

Where a Minister meets the KMP definition in respect of an agency (as per the applicable FRR 3C.3 policy), reference should be made to the relevant model financial statements for Treasury's recommended disclosure about Ministerial remuneration. Agencies would not have any remuneration to report themselves, assuming they don't bear Ministerial remuneration expenses.

Aggregate remuneration for all Ministers (as per paragraph 17 of AASB 124) will be reported in Treasury's annual Report on State Finances – as all Ministers also meet the definition of KMP for the Whole-of-Government.

***Performance Payments***

The disclosure requirements regarding performance payments apply to all departments and statutory bodies that have KMP whose remuneration packages include potential performance payment entitlements. Performance payments are equivalent to bonus payments under AASB 119. Other bonus payment entitlements under AASB 119 may include (but are not limited to) short and long term incentive plans, at-risk payments and certain deferred/contingent bonus plans.

The performance payments requirements apply to entitlements to which any KMP, not just chief executives, may be entitled.

If performance payments are expected to be settled wholly within 12 months after the end of the reporting period in which the KMP rendered the related services, they are to be accounted for as a short-term employee benefit. Otherwise, they are to be accounted for as a long-term employee benefit under AASB 119.

AASB 110 deals with the treatment of adjusting and non-adjusting events (refer to that standard for further explanation of these concepts). A common scenario is where agency KMP may be conditionally entitled to performance payments as at the reporting date but the obligating event giving rise to the payment does not occur until the subsequent reporting period. In the context of AASB 110 requirements, this would be classified as a non-adjusting event and the performance payment expense will be recognised in the financial year following that to which the payment actually relates.

This also applies to the expenses disclosed in the associated KMP note (refer to the illustrative tables in the Sunshine Department Illustrative Financial Statements note). Being a non-adjusting event, only narrative note disclosure is permissible regarding any performance payments (or potential payments) determined after the end of the reporting period.

# FRR 3D Expenses

## INTRODUCTION

*Policy items*, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

*Application guidance*, indicated by normal text under the "Application Guidance" sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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## 3D.1 RECOGNITION AND DISCLOSURE OF EXPENSES

**REFERENCES**

- *Framework for the Preparation and Presentation of Financial Statements*
- AASB 101 *Presentation of Financial Statements*
- AASB 1054 *Australian Additional Disclosures*

**POLICY**

- **The notes must include a breakdown of each material category of expense shown on the face of the Statement of Comprehensive Income.**
- **The notes to the financial statements must include the value and reason/basis for the waiver of material debts during the financial period.**
- **In addition to AASB 1054.10, the notes to the financial statements must also disclose the amount quoted for the external audit fee for that particular financial year (as per the external auditor's External Audit Plan).**

**APPLICATION GUIDANCE**

***Recognition of Expenses***

Pursuant to the Framework, an expense should be recognised in an agency's Statement of Comprehensive Income when, and only when, the following criteria are satisfied:

- a decrease in future economic benefits related to a reduction in assets and/or an increase in liabilities has occurred; and
- the consumption or loss of future economic benefits has a cost or value that can be measured reliably.

A further criterion for the recognition of an expense is that it possesses a cost or value that can be measured with reliability. In many cases, cost or value must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the expense is not recognised in the Statement of Comprehensive Income.

An item that, at a particular point in time, fails to meet the recognition criteria, may qualify for recognition at a later date as a result of subsequent circumstances or events (e.g. litigation against an agency disclosed as a contingent liability where updated legal advice advises the litigation is now likely to succeed). An item that possesses the essential characteristics of an expense but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial performance of the entity by the users of the Statement of Comprehensive Income.

***Timing of Recognition***

Under the accrual basis of accounting, expenses are recognised when incurred, usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Examples include:

- where future economic benefits acquired by an agency are consumed immediately or soon after acquisition e.g. supplies, the expense qualifies for recognition in the reporting period in which the acquisition of the future economic benefit occurs;

- where future economic benefits are expected to be consumed over several reporting periods e.g. most non-current physical assets, expenses (depreciation) should be allocated systematically to the reporting period during which the future economic benefits are expected to be consumed;

- where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and

- where a liability is incurred without the recognition of an asset (e.g. wages payable), an expense is recognised simultaneously with the recognition of the liability.

***Examples of Expenses***

The definition of expenses encompasses losses as well as expenses that arise from the ordinary activities of the entity. Losses would include losses on the sale of non-current assets, write downs of inventory and decrements in fair values of financial instruments classified as held at fair value through profit or loss. Losses, including losses defined under the FPMS, are dealt with separately in this FRR.

Agencies are directed to FRR 3C Employee Benefit Expenses and Key Management Personnel Remuneration for the Minimum Reporting Requirements applicable to wages, salaries and other employee entitlements/costs.

***Initial Project Costs***

Costs are often incurred in relation to a project before it is known conclusively whether they will result in an asset of an agency. Where asset recognition criteria are not met, any such costs must be expensed as incurred. (Refer to NCAP 1 Recognition of Assets for definition and recognition criteria). Circumstances involving initial costs could include construction projects, service concession arrangements and expenditure incurred in the research phase of a development project under AASB 138.

Departments should also be aware of the Project Commencement Approval Policy (https://www.treasury.qld.gov.au/resource/project-commencement-approval-policy/) applicable to accountable officers and Ministers when approving the commencement of a high-value project.

***Construction Costs - Work in Progress***

Where an agency is constructing an asset for its own use, costs incurred during construction that are directly attributable to bringing the asset to a location and condition necessary for its intended use must be capitalised as work in progress. After the asset is installed and ready for use the asset is classified as part of the class to which it belongs. Examples of work in progress costs are contained in NCAP 1 Recognition of Assets.

However, not all funds that are provided for capital works purposes necessarily result in a capitalised asset. Those costs that cannot be directly attributed to the construction of the asset or to bringing the asset to a location and condition necessary for its intended use must be expensed. Examples of such costs are administration and other general overheads, training expenses, advertising and promotional expenses and costs of opening a new facility.
Aggregated expenditure on an asset must exceed prescribed asset recognition thresholds for the relevant asset class to qualify for capitalisation. Refer to NCAP 1 Recognition of Assets for definition and recognition criteria.

## 3D.2 GRANTS AND SUBSIDIES EXPENSES

**FRR 3D.2 only applies to expenses within the scope of FRR 3E Distinction between Grants and Procurement, that are NOT a procurement transaction according to the criteria in FRR 3E.2 Classification of Arrangements between Grants and Procurement.**

**REFERENCES**

- *Framework for the Preparation and Presentation of Financial Statements*
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*
- FRR 3E Distinction between Grants and Procurement

**POLICY**

- **Where the terms of a grant or subsidy have been satisfied during the reporting period, but the full amount relevant to the period has not yet been disbursed, an agency must recognise an expense and a liability (payable) in respect of the present obligation at reporting date.**

- **Where an agency has examined the relevant terms and conditions of the grant arrangements, and:**

  - **it is less likely than more likely that a present obligation exists in terms of the Framework for the Preparation and Presentation of Financial Statements; or**

  - **it is improbable that an outflow of economic resources will be required to settle the obligation; or**

  - **a reliable measurement of any future payment cannot be made,**

  **then a contingent liability must be disclosed in the notes to the financial statements (where the amount is material).**

- **Agencies shall not recognise any prepayment assets in relation to grants and subsidies paid.**

**APPLICATION GUIDANCE**

As specified in FRR 3E, the grantor agency does not receive approximately equal value in return for the grant payments made in a transaction that meets the classification criteria of a grant.
This is because economic benefits are provided to other parties, such as the general public, rather than directly back to the grantor agency. The grantor therefore does not control any asset (as defined in the conceptual framework) once the grant is paid and should not recognise any prepayment asset(s) when it makes a grant payment.

Return of grant revenue previously paid out by the agency in an earlier financial year will, except in rare situations, be treated as "other revenue". After the agency makes the initial grant payment, any subsequent return of grant funds from the grant recipient is considered a separate transaction. The current year's grant expense should not be distorted by the recoupment of prior year grants.

***Recognition of accrued grant expenses***

At year end, a third party grantee may have incurred costs or work-in-progress (WIP) on a grant funded project that they have yet to bill the grantor agency for the next instalment of grant funding. The grantor agency should not recognise a liability (accrued grant expense) unless both of the following conditions are met:

- The terms and conditions in the grant agreement establish a present obligation for the grantor to pay for the work performed to date (in many cases, a present obligation will not exist for payment until a certain milestone has passed), AND

- The grantor is readily able to obtain a reliable estimate of the amount of "unbilled WIP" incurred/recognised by the grantee. For this purpose, it is not expected the grantor would need to go to unreasonable lengths to ascertain or estimate this information, including imposing unreasonable access conditions to "look into" to the grantee's books or systems.

It is expected that only in very few circumstances would these conditions be satisfied.

| |
|---|
| Example: *A grant agreement specifies that the grantor is liable to pay funding instalments on completion of set milestones. The grantor should not recognise any accrued grant expenses for milestones that are partially complete at year end. Only when the milestone is complete and the grantor has been officially notified of its completion (and has not yet been invoiced for the instalment), would it be appropriate to recognise an accrued grant expense. Upon receiving an invoice, the accrued liability becomes a grant payable.* |

## 3D.3 FINANCE/BORROWING COSTS

**REFERENCES**

- *AASB 123 Borrowing Costs*

**POLICY**

- **All finance/borrowing costs of not-for-profit agencies must be expensed in the period in which they are incurred, as permitted by paragraph Aus1.0 of AASB 123.**

## 3D.4 LOSSES AND INSURED LOSSES

**REFERENCES**

- *Financial Accountability Act 2009 (FA Act) (s.21, s.72)*
- *FPMS (s.16, s.17)*

**POLICY**

- **A loss which is subject to an insurance recovery must be separately disclosed on a gross basis with a cross-reference to the note where any recovery revenue is recognised. The reimbursement receivable must be treated as a separate asset to any provision that is recognised.**
- **Receivables and income in respect of insurance recoveries must not be recognised unless it is virtually certain that the insurer will accept the claim.**
- **Insurance premiums paid to the Queensland Government Insurance Fund (QGIF) must be separately disclosed as "Other expenses – Insurance premiums QGIF".**
- **WorkCover premiums are not disclosed under this item, but under "Employee Expenses".**

**APPLICATION GUIDANCE**

Losses are defined by the Australian Accounting Standards Board in its *Glossary of Defined Terms* as a 'decrease in economic benefits'. The term 'losses' includes bad debts written-off, thefts, accidental and wilful damage or property destruction and losses due to negligence.

For whole-of-government (woG) reporting purposes in Tridata, insurance recoveries from the QGIF are to be accounted for against the expense recognised in respect of the loss. Therefore, whilst for agency financial reporting purposes, QGIF insurance recoveries are recognised as revenue, for woG reporting in Tridata, these recoveries are credited against the relevant expense and as such, not recognised as revenue.

## 3D.5 LOSSES UNDER THE *FINANCIAL AND PERFORMANCE MANAGEMENT STANDARD 2019*

**REFERENCES**

- *FA Act (s.21, s.48, s.72)*
- *FPMS (s.16, s.17)*

**POLICY**

- **Losses recognised in accordance with s.16 and s.17 of the FPMS are expenses for financial reporting purposes.**
- **Disclosure is required of the total amount for each class of material loss under s.16 and s.17 of the FPMS. Such losses must be separately identified in the notes to the agency's financial statements within the 'Other Expenses' note.**

**APPLICATION GUIDANCE**

Section 17(2) of the FPMS requires a written record of material losses be kept, and describes the details about the losses that are to be recorded. Material loss, for property of a department or statutory body, is defined in the FPMS (Schedule 1 Dictionary).

Section 72 of the FA Act gives the accountable officer authorisation to write off losses for controlled assets. Only the Treasurer has authority to write off losses associated with administered assets unless a specific delegation has been provided to an accountable officer, or an officer or employee of Queensland Treasury, by the Treasurer under s.48 of the FA Act.

## 3D.6 SPECIAL PAYMENTS

**REFERENCES**

- FA Act (s.72)
- FPMS (s.15)

**POLICY**

- **Agencies must disclose within the 'Other Expenses' note the total amount for each class of special payments.**
- **In addition, that note must include a description of the nature of all special payments greater than $5,000. At their discretion, agencies may also disclose the nature of special payments of $5,000 or less.**
- **Agencies are to include in their significant accounting policies, a note that explains the recording and reporting arrangements for special payments.**

**APPLICATION GUIDANCE**

Special payments are defined in the FA Act as including 'ex gratia expenditure and other expenditure that is not under a contract'. A payment is 'ex gratia' when it is not legally due either under a contract or otherwise e.g. when a payment is made to a contractor on the grounds of hardship because of an excessive loss on a fixed price contract.

It is not always possible to distinguish between an ex gratia payment and one that may be a legal obligation. Therefore, the nature of the payment should be the determining factor. Out-of-court settlements arising from the normal course of operations of an agency should be treated as special payments. An 'extra-contractual' payment occurs when there is no clear legal obligation to make a payment under the contract terms, however, a court might hold that an obligation exists e.g. a contractor who incurs additional costs as a result of an agency's inaction.

## 3D.7 REPORTABLE GIFTS

**REFERENCES**

- *Public Sector Commission Gifts and Benefits Directive*
- *Public Sector Commission Gifts and Benefits Guideline*

**POLICY**

- **Reportable gifts made by a department must be disclosed under "Grants and Subsidies Expenses" and classified as a donation/gift in the notes to the financial statements.**

**APPLICATION GUIDANCE**

Reportable gifts that involve the provision of something in a physical form are not special payments, as "payment" implies a direct transfer of cash to the person who receives the benefit. For other guidance, refer to the Public Sector Commission's publications, Gifts and Benefits Directive and Gifts and Benefits Guideline available at:
https://www.forgov.qld.gov.au/pay-benefits-and-policy/directives-policies-circulars-and-guidelines

# FRR 3E Distinction Between Grants and Procurement Expenses

## INTRODUCTION

*Policy items*, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

*Application Guidance*, indicated by plain text under the "Application Guidance" sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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# 3E.1 SCOPE OF FRR 3E

**REFERENCES**

- *Financial Accountability Act 2009* (FA Act) (s.72)

**APPLICATION GUIDANCE**

The purpose of this FRR is to outline the principles and criteria to be applied to promote consistent classification of grants and procurement expenses by departments and statutory bodies for financial reporting purposes and for the Service Delivery Statements (SDS) that form part of the annual State Budget papers.

<u>This FRR applies to agencies making payments or transfers of assets where the transactions are not dealt with by an existing accounting standard or other FRR</u>.

Appendix 1 Types of transactions and their classification indicates how certain common types of transactions would typically be classified. Appendix 2 Illustrative Case Studies demonstrate the application of the FRR policy items to hypothetical scenarios.

This FRR <u>does not apply</u> to special payments as defined in the FA Act. This FRR is <u>not to be used</u> to determine the specific taxation (e.g. Goods and Services Tax) consequences of a transfer. Agencies remain responsible for tax compliance matters and for seeking external taxation expertise where necessary.

The following Table 1 provides direction as to the appropriate accounting standard or guidance that addresses other specific types of arrangements. Where a transaction is not one listed in the table, a transferor agency must consider the principles and criteria in this FRR for guidance on a transfer's classification and accounting treatment.

*Table 1:* Out-of-scope transactions of FRR 3E

| **Payment/Acquisition Transaction** | **Applicable standards and policies** |
|---|---|
| Financial instruments (including interest payments) | AASB 7 *Financial Instruments: Disclosures*<br>AASB 9 *Financial Instruments*<br>AASB 132 *Financial Instruments: Presentation*<br>FRR 4E *Financial Instruments* |
| Property, plant and equipment | AASB 116 *Property, Plant and Equipment*<br>Non-Current Asset Policies |
| Acquisition of intangible assets | AASB 138 *Intangible Assets*<br>Non-Current Asset Policies |
| Lease payments | AASB 16 *Leases*<br>FRR 4B Assets |
| Inventory | AASB 102 *Inventories* |
| Investment property | AASB 140 *Investment Property* |
| Business combinations and joint arrangements | AASB 3 *Business Combinations*<br>AASB 11 *Joint arrangements* |
| Payments relating to service concession arrangements | AASB 1059 *Service Concession Arrangements: Grantor*<br>FRR 5D *Service Concession Arrangements* |
| Payments and benefits provided to employees | AASB 119 *Employee Benefits*<br>FRR 3C *Employee Benefit Expenses and KMP Remuneration* |
| Equity contributions and distributions | AASB 1004 *Contributions*<br>Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*<br>FRR 4F *Equity, Contributions by Owners and Distributions to Owners* |
| Income tax payments | AASB 112 *Income Taxes* |
| Special payments (s.72 of the FA Act) | Section 15 of the FPMS<br>Financial Accountability Handbook – Information Sheet 3.6 Expense Management Systems (excluding HR)<br>FRR 3D *Expenses* |

## 3E.2 CLASSIFICATION BETWEEN GRANTS AND PROCUREMENT

**REFERENCES**

- AASB 101 *Presentation of Financial Statements*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- *Framework for the Preparation and Presentation of Financial Statements*
- AASB *Glossary of Defined Terms*
- FRR 3A Statement of Comprehensive Income
- FRR 3D *Expenses*
- FRR 4F *Equity, Contributions by Owners and Distributions to Owners*
- Financial Accountability Handbook - Volume 6 Grant Management

**POLICY**

- **For an arrangement to be classified as a procurement transaction, the value of what one entity receives from another entity must be of approximately equal value, in the form of cash, goods, non-monetary assets and/or services. Where this is not the substance of the arrangement, the transaction is classified as a grant.**

- **The classification of the arrangement as procurement or grant will determine the relevant accounting treatment for the expenditure under Accounting Standards.**

**APPLICATION GUIDANCE**

***Distinction between Grants and Procurement***
Australian Accounting Standards and Interpretations do not explicitly deal with the classification and treatment of grants and procurement expenses from the perspective of the transferor.

***Grants***
A defining characteristic of a grant is that the recipient does not give approximately equal value in return directly to the transferor, i.e. it is a **non-exchange transaction**. To be an exchange transaction, the transferor must have a right to receive the benefits directly, it is not sufficient that the transferor received benefits indirectly as a result of the transfer.
Agencies ordinarily provide grants to achieve its policy objectives or for compassionate reasons. Grants can be in the nature of contributions, subsidies, incentives, donations, debt forgiveness, rebates, and other similar funding agreements.

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

The recipient of a grant may have been selected on merit against a set of program-specific criteria and may need to comply with certain conditions in return for the grant received.

Government grants exclude those forms of government assistance which cannot reasonably have a value placed upon them, and transactions with government that cannot be distinguished from the normal trading transactions of an entity. • Government grants are sometimes called by other names such as subventions or premiums. • Refer to the Financial Accountability Handbook Volume 6 for information on grant management, including administration of grant programs.

***Procurement***

Procurement refers to the processes by which all types of resources (human, material, facilities and services) are obtained. Agencies procure to meet the needs of its operations and to allow the agency to perform its intended functions.

A typical feature of procurement is that the recipient provides goods or renders services directly to the transferor, or to specified third parties on the transferor's behalf, for approximately equal value (i.e. it is an **exchange transaction**). If the recipient does not deliver the promised goods or services it is required to return the assets (consideration) provided (e.g. cash) back to the transferor.

The primary functions of many agencies involve delivery of services to the public. Where an agency engages a third party to delivery those services on its behalf, the transaction can be classified as procurement even though the end benefits are provided to the public and not directly back to the agency. **This is the case when the agency is responsible for the provision of the services and is directing the service provider to deliver those services to specified third parties on its behalf – i.e. the agency controls the services provided.**

Some types of procurement, such as purchases of assets, hiring of employees and leasing are addressed by other standards listed in section 3E.1 above. In some arrangements, significant judgement is required around whether the agency is principally responsible for the delivery of a service or program and is engaging another entity to delivery those on its behalf (i.e. procurement), or the agency is merely contributing towards a service or program provided by another entity, such as a non-government organisation or another public sector agency (i.e. a grant).

***Assessment of the substance of the transaction***

Paramount to the classification of a transaction (either for recurrent/operational, or capital purposes) as either a grant or procurement is understanding the **purpose** and the **characteristics** of the transaction with the other party. In determining whether a transaction is a grant or procurement, it is necessary that the classification is in accordance with the **substance** and economic reality and not merely the legal form. An agency may enter into an agreement that takes the legal form of a grant, but in substance is a procurement of goods and/or services; and vice versa. The substance of a transaction should prevail over the strict legal wording in associated documentation.

The indicators listed in Table 2 below are provided to assist an agency in determining the overall substance of the arrangement. These indicators would normally individually or in combination provide guidance for the most appropriate classification. The list of indicators is not exhaustive and the classification is ultimately based on an **overall assessment of the substance** of the arrangement. Professional judgement must be applied when evaluating the indicators as these may not be conclusive.

*Table 2a: Procurement Indicators versus Grant Indicators – Approximate Equal Value*

| **a) APPROXIMATELY EQUAL VALUE** | | |
|---|---|---|
| **Can approximately equal value between the amount/value of the transfer and benefits received by the transferor be well demonstrated?** | | |
| **Summary of Indicators of approximate equal value** | **Indicator of Procurement** | **Indicator of Grant** |
| • The transferor provides a commercial level of consideration and receive goods or services in exchange | ✓ | |
| • The amount transferred is solely for the quantity of goods or services to be received / delivered | ✓ | |
| • There has been a contestable tender process where the transferor assessed the market to achieve better value for money | ✓ | |
| • The transferor is intending to provide a benefit to the recipient to achieve a policy objective or on compassionate grounds | | ✓ |
| • The agreement is <u>not</u> enforceable (see AASB 15 para. F10–F18)[1] | | ✓* |
| • The agreement does <u>not</u> contain sufficiently specific details as to what is required of the recipient, e.g. in the form of production quantities or performance criteria (see AASB 15 paragraphs F2–F27) [2] | | ✓* |
| • The ultimate aim of the transfer to generate benefits that cannot be reliably quantified e.g. future reduction of greenhouse gases | | ✓ |
| • The recipient has more than one source of funding for the activities or outputs that the transferor is contributing towards. | | ✓ |

*Table 2b: Procurement Indicators versus Grant Indicators – Direct Benefit to Transferor*

<table>
<tr><th colspan="3">b) DIRECT BENEFIT TO THE TRANSFEROR</th></tr>
<tr><td colspan="3">Direct benefit – Has the transferor procured goods or services for its own use or specifically directed the recipient to deliver specific goods and/or services to a specified third party on its behalf?<br><br>Indirect benefit – Does the transfer provide financial assistance to the recipient so that the recipient may achieve its goals and, as such, only indirectly promotes the transferor’s policy objectives?</td></tr>
<tr><th>Summary of Indicators of direct benefit</th><th>Indicator of Procurement</th><th>Indicator of Grant</th></tr>
<tr><td>• The transferor is acquiring the goods or services for use in its day-to-day operations to perform its functions</td><td>✓</td><td></td></tr>
<tr><td>• The transferor is providing funding to the recipient to assist the recipient in meeting its own objectives (even though an indirect benefit may be obtained by the transferor through aligned objectives)</td><td></td><td>✓</td></tr>
<tr><td>Where the transferor is paying the recipient to provide goods or services to third parties:</td><td></td><td></td></tr>
<tr><td>• The transferor has explicitly undertaken responsibility to provide the particular good or service to the public</td><td>✓</td><td></td></tr>
<tr><td>• The transferor determines the scope of the goods or services to be provided</td><td>✓</td><td></td></tr>
<tr><td>• The transferor has identified, by name or by category, the third parties to whom the recipient is instructed to deliver the goods or services on the transferor’s behalf</td><td>✓</td><td></td></tr>
<tr><td>• The transferor can choose to use its own staff or another provider to deliver the services</td><td>✓</td><td></td></tr>
<tr><td>• The service program is initiated by the recipient and the transferor is contributing funding towards the initiative</td><td></td><td>✓</td></tr>
<tr><td>• If the transferor ceases funding, the recipient will continue providing the services using other sources of funding</td><td></td><td>✓</td></tr>
</table>

[1] An agreement not being enforceable or not containing sufficiently specific promises are indicators of a grant. However, an agreement that is enforceable and contains sufficiently specific promises is not automatically classified as procurement, such agreements can also be grants.

[2] Appendix F of AASB 15 *Revenue from Contracts with Customers* explains the definition and concepts of enforceability and sufficiently specific. Although AASB 15 DOES NOT APPLY to expenses, the concepts of enforceability and sufficiently specific in the context of evaluating a contractual agreement are appropriate/relevant.

***Multiple elements in a transaction***

Where an arrangement contains multiple elements, an agency will need to identify the respective elements and classify/account for them separately according to their nature. The agency may need to exercise judgement in determining the underlying elements, the amount attributable to each element and the most appropriate timing of recognition of associated expenses.

*Example – Different elements of a transaction*

An agency enters into an agreement with another entity to outsource its information technology responsibilities. As part of the agreement, the other entity is required to provide specific services over a set period of time (over several reporting periods). That other entity is also required to acquire specific assets for the sole use of the agency and to provide maintenance and upgrade services for the agency's existing assets. The agency agrees to pay a pre-determined fee for all such services.

The agency will need to consider whether the agreement results in the purchase of multiple goods and/or services, and whether each needs to be accounted for separately.

***Consistent classification for inter-agency transactions***

When assessing the overall substance of a transaction, it sometimes may be easier to consider the classification that applies to the counterparty and assess the merits of applying a classification that mirrors the counterparty perspective. Where both parties are within the Queensland public sector, there should be consistency in the classification of a given transaction by both parties.

For whole of Government (woG) reporting, transactions between Queensland public sector agencies are eliminated. In that respect, in the rare situation where one agency (the "initiator") makes a transfer to another agency (an "intermediary") that is in turn to be transferred to an entity external to the Queensland public sector, it is likely that the woG impact (post-elimination) may not reflect the appropriate classification at the woG level. This may result from the intermediary's classification of the transfer to the external entity differing from the initiator's classification of its transfer.

If this situation arises, the intermediary agency must ensure that the classification used in Tridata for its transfer (for both actual and budget figures) reflects the woG perspective i.e. use the same classification as the initiator. This will result in a classification difference between the intermediary's financial statements and what is reported in Tridata (for both actual and budget figures).

However, for the Service Delivery Statement (for both actual and budget figures), the classification should be the same as for the agency's financial statements. (Queensland Treasury's Fiscal Reporting team can advise on how to adjust the Tridata classification for the SDS.)

| Example: Agency A pays Agency B to pay external entity C to undertake activities that provide direct benefits of equivalent value to Agency A.<br><br>*Classification:* From a State perspective, this is a procurement of services from an external entity – refer to Table 2. Consistent with Agency A's classification, Agency B would classify its revenue as "user charges". However, the payment from Agency B to external entity C would be classified as a grant expense, on the basis that Agency B does not receive a direct benefit of equivalent value. After elimination of the inter-agency transaction, the remaining transaction at the woG level is a grant expense. To ensure the woG classification is as "procurement", for Tridata purposes only, Agency B is to classify the payment to external entity C as a procurement expense. |
|---|

**FINANCIAL REPORTING CONSEQUENCES**

The classification of a transaction as grant or procurement affects both how the transaction is presented in the financial statements and the timing of expense recognition, particularly when payments are made in advance.

***Recognition of expense - grants***

Grant expense should be recognised when the obligation for a transfer arises according to the remittance terms of the funding agreement. If the transfer does not occur at that time, a corresponding payable should be recognised in the meantime. If the transfer is made in advance of the remittance timeframe, and the recipient can control use of the resources at that time, the expense should be recognised at that time. FRR 3D.2 specifies that agencies are not to defer the recognition of grant expenses by way of a 'prepaid grants' asset.

Some grants contain sufficiently specific performance obligations for the recipient to transfer goods or services to third parties and are enforceable by the transferor. Such grants may be classified by the recipient as revenue from contracts with customers under AASB 15 and the recipient is required to defer revenue recognition. Even so, as long as the transaction is classified as a grant by the transferor agency, the agency does not defer expense recognition. This is because the transferor is not receiving approximately equal value in return, and as such does not have an asset per the definition in the conceptual framework.

***Recognition of expense - procurement***

The expense should be recognised according to the timeframe(s) when the benefits are obtained by the transferor. If the transfer is made in arrears of that timeframe, a corresponding payable should be recognised in the meantime. If the transfer is made in advance of the benefits being obtained, a prepayment should be recognised in the meantime.

***Presentation of expenses***

Expenditure transactions classified as grants should be presented on the Statement of Comprehensive Income as grants and subsidies.

Expenditure transactions classified as procurement should be presented as supplies and services, unless separately presented under another standard or policy (e.g. employee expenses).

Where an agency reclassifies expenses in line with the criteria in this FRR, this is also to be applied to the comparative period's figures. Agencies should refer to paragraphs 40A – 42 of AASB 101 *Presentation of Financial Statements* for the associated requirements.

# APPENDIX 1 CLASSIFYING DIFFERENT TYPES OF TRANSACTIONS

A number of transactions that fall within the scope of this FRR are discussed in Table 4 below. Where this table indicates how a particular arrangement would be classified, it should be classified as such. **When considering the transactions listed below, the principles and criteria set out in this FRR and the overall substance of the arrangement prevail in determining the appropriate classification.**

*Table 4:* Transaction Types

| **Transaction type** | **Description of transaction** | **Classification - <u>subject to assessment of the substance of transaction as per this FRR</u>** |
|---|---|---|
| Co-sourcing agreement | An arrangement where an agency enters into a specific agreement with another entity to combine agency staff with the other entity's staff to deliver a service that the agency would otherwise be required to deliver. | Procurement |
| Donation/Gift | The provision of cash, property or other assets to a specified "cause" or activity without creating an obligation on the recipient about the use of the resources. | Grant |
| Forgiveness of a loan | An arrangement where an agency cancels all or part of an amount owing to it in order to assist the recipient financially. | Where this is in accordance with terms/conditions in an agreement that allows for this at the outset - Grant (subject to the over-riding requirements of AASB 9 regarding impairments).<br>Otherwise – Other Expenses |
| Outsourcing arrangement | An arrangement whereby an agency enters into an agreement with another party to contract out the delivery of specific services that the agency would otherwise be responsible for delivering. | Procurement |

| **Transaction type** | **Description of transaction** | **Classification - subject to assessment of the substance of transaction as per this FRR** |
|---|---|---|
| Concessionary "peppercorn" lease | An agreement whereby an agency gives another party the right to use property (land and/or buildings) for a nominal rent (i.e. a "peppercorn" rent e.g. $1 per annum) over a period of time. | Grant, where the lease is classified as a finance lease for the lessor agency |
| Scholarship | Payment made to support an individual's education, awarded on the basis of academic or other achievements. | Grant. However, where there are conditions attached that require an individual to provide service as an employee after completing their studies, consideration may be required as to whether the substance of the arrangement is an employee benefit. |
| Subsidy | A form of financial assistance to reduce all or part of the costs of a recipient in meeting its own objectives. | Grant |

# APPENDIX 2 ILLUSTRATIVE CASE STUDIES

The case studies on the following pages illustrate the application of the indicators and can be used by agencies as a broad guide to applying the concepts in this FRR for classifying arrangements. These case studies are not intended to deal with the full range of accounting consequences that may arise under the particular scenario.

Agencies must exercise caution in applying the conclusions in individual case studies to arrangements that do not exactly mirror the scenario described. Requests for advice about specific circumstances may be forwarded to the Financial Management help desk (at fmhelpdesk@treasury.qld.gov.au).

| **Case Study 1: Arrangement for another entity to provide services** |
|---|
| ***Background***<br>Department XYZ's operational plan states that one of its core functions is to provide transport services to patients in rural and remote communities.<br><br>Department XYZ entered into an arrangement with Agency TRS (the only entity with a presence in all remote areas across the State) to provide transport services to patients in remote communities.<br><br>The arrangement specifies the service to be provided, the period over which the service should be provided as well as the payment terms (i.e. the agreement states that no payment will be made if there is no flight and the agreement specifies an agreed rate per flight hour). Furthermore, the agreement sets out non-performance and penalty considerations to the extent that the service is not provided. |
| ***Analysis***<br><u>Step 1 - Gain an understanding of the arrangement:</u><br><br>• **What are the goods and services?** Agency TRS is being paid for provision of flights (transport) to patients i.e. specific services are being purchased by Department XYZ for patients (i.e. there is an identified party).<br><br>• **Obligations in the agreement:** The agreement is sufficiently specific and sets out the nature of the service to be provided, the payment terms, the period of service as well as conditions regarding non-performance. |

**Case Study 1: Arrangement for another entity to provide services**

- **Overall intent/purpose:** To purchase transport services for patients in rural areas, a service Department XYZ undertakes (as evidenced by its operational plan) to provide.

<u>Step 2 - Application of classification principles:</u>

***Approximately equal value?***

- *Activities are quantifiable in dollar terms as the agreement specifies the agreed rate per flight hour.*
- *Amount paid is based on number of flights delivered by the recipient (quantity).*
- *Funding is only provided for services delivered in line with the arrangement.*

***Direct benefit for the agency?***

- *The contract specifies the service to be delivered. Department XYZ specifically directs Agency TRS to deliver the services to an identifiable third party. The terms and conditions of the funding agreement are sufficiently specific and directive to ensure Department XYZ's obligations are achieved.*
- *Department XYZ is itself responsible for providing the services and is engaging Agency TRS to provide the services on its behalf.*

***Conclusion: Procurement***

Based on analysis of the factors provided, the arrangement would be classified as procurement as Department XYZ receives approximately equal value by directing the use of funds to meet its obligations.

For Agency TRS, it is providing equivalent value in services directly to Department XYZ in return for the revenue from that department. Therefore, in Agency TRS's Statement of Comprehensive Income this would be classified as user charges revenue. This transaction will likely be within scope of AASB 15 for Agency TRS.

| **Case Study 2: Funding provided with broad key performance indicators and requirements** |
|---|
| ***Background***<br>Agency XYZ provides funding to a non-government organisation (NGO) located in a rural area. The lump sum funding is to assist the NGO with ongoing operational costs. The agreement does not provide specific detail on how the funds are to be applied but some broad key performance indicators and requirements are specified in the contract. |
| ***Analysis***<br>Step 1 - Gain an understanding of the arrangement:<br><br>• **What are the goods and services?** No specified goods or services are delivered by the NGO in return for the lump sum.<br>• **Obligations in the agreement:** The agreement does not include any specifications regarding the use of the funding, the period of service nor any conditions regarding non-performance.<br>• **Overall intent/purpose:** To provide a lump sum to the NGO to assist it with its own ongoing operational costs.<br><br>Step 2 - Application of classification principles:<br><br>***Approximately equal value?***<br>• No goods or services of any identifiable “value” are received by Agency XYZ.<br>• The benefits cannot be reliably quantified.<br><br>***Direct benefit for the agency?***<br>• The contract does not specify specific goods/services to be delivered to either Agency XYZ or a third party nominated by Agency XYZ, but rather relates to a broad policy objective of Agency XYZ.<br>• Financial assistance can be spent at the NGO’s sole discretion but within the requirements of the broad performance indicators and requirements specified in the contract. |
| ***Conclusion: Grant***<br>Based on analysis of the factors provided, the arrangement would be classified as a grant as Agency XYZ does not receive approximately equal value in return. Financial assistance provided to the NGO is largely spent at the NGO’s sole discretion and Agency XYZ only receives an indirect benefit. |

**Case Study 3: Scholarships**

***Background***

Agency ABC annually allocates scholarships to high school students who want to study a degree in the field that it governs. The amount of a scholarship is specifically determined to be enough to fund course fees and textbook costs for the duration of a student's studies. The terms of the scholarship are that the student must apply the money towards their course fees and textbook costs. Agency ABC awards the scholarships to applicants based on merit. Agency ABC has no obligation to promote study in the field that it governs.

***Analysis***

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** The student is required to pay for course fees and textbooks
- **Obligations in the agreement:** To reinforce the intended purpose of the scholarship, the agreement sets out the student's obligations about usage of the money and the period over which it will be provided.
- **Overall intent/purpose:** To provide financial assistance to the students so that they may further their education.

Step 2 - Application of classification principles:

*Approximately equal value?*

- The ultimate outlays by the student are quantifiable in dollar terms as the costs for course fees and textbooks can be determined.

*Direct benefit for the agency?*

- The funding assists the students to meet their objectives.
- Agency ABC receives no goods or services for its sole use, nor does it receive a direct benefit.
- Agency ABC's objectives may be promoted through being associated with the financial assistance provided to the student, but this is only an indirect benefit.

***Conclusion: Grant***

Based on analysis of the factors provided, the arrangement would be classified by Agency ABC as a grant as it does not receive a direct benefit of approximately equal value in return.

**Case Study 4: Scenario 1 - Arrangement to provide research funding**

***Background***

Agency ABC provides discretionary payments to Universities engaged in particular research activities. The payments are only made in accordance with policies and conditions including the costs that may be funded by Agency ABC's payments (e.g. salaries of scientists/consultants), the manner in which any research findings are reported back to Agency ABC, responsibilities in research practice and matters in relation to research integrity.

***Analysis***

Step 1 - Gain an understanding of the arrangement:

- ***What are the goods and services?*** *Research activities performed by the Universities*
- ***Obligations in the agreement****: The agreement includes a number of specifications regarding the conduct of research, the manner in which research is conducted and reported and how the funding is to be used.*
- ***Overall intent/purpose:*** *To further facilitate research in certain areas.*

Step 2 - Application of classification principles:

*Approximately equal value?*

- The ultimate aim of the funding provided is to generate benefits which cannot be reliably quantified.
- No unspent funds are required to be returned by the Universities.

*Direct benefit for the agency?*

- The contract does not specify goods/services to be delivered to Agency ABC.
- Financial assistance can be spent at the Universities' sole discretion but within agreed terms and conditions. There is an indirect benefit for Agency ABC and a direct benefit for the Universities.

***Conclusion: Grant***

Based on analysis of the factors provided, the arrangement would be classified as a grant, as Agency ABC does not receive approximately equal value in return. Financial assistance provided to the Universities is spent at their sole discretion and Agency ABC only receives an indirect benefit.

| **Case Study 4: Scenario 2 - Arrangement to provide research funding** |
|---|
| ***Background***<br>Agency ABC seeks competitive tenders from universities to conduct research on a number of particular industry-specific topics. University XYZ is the successful tenderer and Agency ABC provides it with an upfront lump-sum payment to conduct specific research.<br><br>The funding agreement between Agency ABC and University XYZ specifies the type of research to be conducted, over which period and directs in the manner in which the research should be conducted. Agency ABC requests that the rights to the intellectual property from the research are assigned to the agency and requests that certain KPIs and reporting requirements are met.<br><br>The funding agreement contains terms and conditions that enable it to be legally enforced, and Agency ABC has the means and intent to enforce its rights under the agreement. The research findings will be directly reflected in the design and delivery of new industry support services by Agency ABC. |
| ***Analysis***<br><u>Step 1 - Gain an understanding of the arrangement:</u><br><br>• **What are the goods and services?** Intellectual property arising from industry-specific research performed by University XYZ<br>• **Obligations in the agreement:** The agreement includes specifications regarding the nature of the service to be provided and requires that the intellectual property from the research be assigned to Agency ABC.<br>• **Overall intent/purpose:** To obtain specific research findings to progress the agency's objectives.<br><br><u>Step 2 - Application of classification principles:</u><br><br>*Approximately equal value?*<br>• The resulting intellectual property rights will be controlled by Agency ABC.<br>• The price paid for the research has been determined through a competitive tender process, so it reflects a reasonable measurement of the cost necessary to obtain the research findings. |

| **Case Study 4: Scenario 2 - Arrangement to provide research funding** |
|---|
| *Direct benefit for the agency?*<br>• The contract specifies the research to be conducted (i.e. applied research).<br>• The intellectual property arising from the research will be assigned to Agency ABC.<br>• The research findings will be directly used by Agency ABC in its operations. |
| ***Conclusion: procurement***<br>Based on analysis of the factors provided, the arrangement would be classified as procurement, as Agency ABC receives approximately equal value in the form of the intellectual property and specified research that will directly be used in its operations. As this expenditure does not provide "front line" services to the community (the research itself will only be used by Agency ABC to inform its operations), for presentation in Agency ABC's Statement of Comprehensive Income, this would be classified as other supplies and services.<br><br>NB. As this transaction is classified as procurement, to the extent that Agency ABC has not received the rights to the intellectual property it will recognise a prepayment (asset). |

| **Case Study 5: Legislative obligation** |
|---|
| ***Background***<br>The Child Protection Act 1999 (the Act) proclaims that the State is responsible for protecting those children who do not have a parent who is able and willing to protect the child and to ensure a child's developmental, educational, emotional, health, intellectual and physical needs are met.<br><br>In order to meets its obligations under the Act, Agency DEF provides funds to various providers e.g. funds are paid for schooling, residential placements and medical expenses.<br><br>Funding is provided based on invoices received for specific types of services delivered/goods purchased (i.e. no single overarching agreement is in place for the delivery of all support required). |
| ***Analysis***<br>Step 1 - Gain an understanding of the arrangement:<br><br>• **What are the goods and services?** Various services and goods are procured. The benefits will be based on the services provided that have commercial value. |

| **Case Study 5: Legislative obligation** |
| --- |
| • **Obligations in the agreement:** The invoice will be specific to goods/services provided, the payment terms will be specified and the goods/services to be delivered in order to obtain the funding (i.e. payment is made subsequent to delivery of the goods/services).<br>• **Overall intent/purpose:** To enable the carers of children to obtain the services required to protect children and provide for their basic needs.<br><br><u>Step 2 - Application of classification principles:</u><br><br>***Approximately equal value?***<br>• Goods or services delivered by the providers are quantifiable as payments made will be based on invoices for services/goods delivered.<br>• Amount paid is based on specific services delivered by the providers (i.e. quantity).<br><br>***Direct benefit for the agency?***<br>• Agency DEF is specifically directing the providers to deliver goods/services to third parties on its behalf.<br>• The purchase orders will specify the goods/services to be delivered. If the providers did not provide the respective services, Agency DEF would be required to deliver the goods/services through other means.<br>• Agency DEF directs the use of the funds as funding is only provided for services delivered in line with purchase orders (the services/goods delivered should be checked to ensure they are as per the purchase order). |
| **Conclusion: procurement**<br>Based on analysis of the factors provided, the arrangement would be classified by Agency DEF as <u>procurement</u>, as Agency DEF directs the use of the funds to meet its obligations as part of the agency's functions. |

**Case Study 6: Joint Funding Agreement**

***Background***

The Australian Government and Queensland Governments (the latter via Agency CDE) have a joint funding agreement under which the Australian Government provides funding to assist the Queensland Government in undertaking the monitoring of water pressure levels in the Great Artesian Basin (this forms part of a broader process to implement a whole-of-Basin water bore monitoring network).

The Australian Government contributes to the Queensland Government 50% of the total cost. The Queensland Government (via Agency CDE) is responsible for assessing the impact of recently implemented sustainability measures, and determining future management approaches. The Queensland Government (via Agency CDE) must also annually report back to the Australian Government about its progress with improving the sustainability of the Basin.

Agency CDE entered into a funding agreement with an NGO to monitor water pressure levels in the Great Artesian Basin and associated activities.

This funding agreement addresses the following:

- An upfront payment of $1m (i.e. total funding from both the Australian Government and Queensland Government) from the agency to the NGO subject to certain conditions being met.
- Schedule of works to be completed as specified
- Certain activities to be performed to qualify for funding provided including:
  - providing lists of bores by type, monthly progress reports;
  - progress reports detailing works undertaken and expenditure incurred; and
  - bore elevation survey.
- Requirement for unspent funds to be returned to Agency CDE (in turn, Agency CDE passes back to the Australian Government 50% of any such returned funds). Money can only be used for purposes specified in the agreement, unless the Australian Government's written permission is obtained.
- Requirement to maintain an assets register on behalf of Agency CDE. The contract runs for a period of three years, and contains terms and conditions that make it legally enforceable.

***Part 1 – Analysis of the agreement between Australian Government and Queensland Government (via Agency CDE)***

*Step 1 - Gain an understanding of the arrangement:*

- ***What are the goods and services?*** Periodic reporting on progress with management of the Great Artesian Basin.
- ***Obligations in the agreement:*** The agreement only articulates an agreed outcome of medium-term improvement in the sustainability of the Basin.
- ***Overall intent/purpose:*** *To financially assist the Queensland Government in its efforts towards management of the Basin.*

*Step 2 - Application of classification principles:*

***Approximately equal value?***

- The only thing the Australian Government receives in return for its funding is annual progress reporting. It is very difficult to quantify the benefits of such reporting, but would be unlikely to approximate the value of the funding provided.

***Direct benefit for the transferor (Australian Government)?***

- The Australian Government only has policy oversight over the nation's natural resources – it does not use the Basin and only benefits indirectly from the Basin's management.
- Those who directly benefit most from sustainability and condition of the Great Artesian Basin are landholders and primary producers in regions that can access the Basin, but they are not the transferors in this arrangement.

**Conclusion to Part 1: grant**

Based on analysis of the factors provided, the arrangement would be classified as grant revenue to Agency CDE as it cannot demonstrate the provision of equivalent value directly to the Australian Government in return for the funding.

***Part 2 – Analysis of the agreement between Agency CDE and NGO***

*Step 1 - Gain an understanding of the arrangement:*

- ***What are the goods and services?*** Monitoring of water pressure, provision of information and record-keeping for assets.
- ***Obligations in the agreement:*** The agreement is specific and sets out the nature of the service to be provided, the period over which it will be provided as well as conditions regarding non-performance.

**Case Study 6: Joint Funding Agreement**

- ***Overall intent/purpose:*** To contract out the monitoring of the water levels and associated information-collection activities.

*Step 2 - Application of classification principles:*

***Approximately equal value?***

- Service delivered by the NGO to Agency CDE has commercial value and can therefore be measured reliably.
- The services delivered will benefit the Queensland Government (based on the monitoring of the water bore network, and associated record-keeping activities).
  - If money is not spent by the NGO, it has to be returned to Agency CDE;
  - If the NGO does not perform the services, Agency CDE will be required to meet its obligations through another means as it is a requirement of its own funding agreement with the Australian Government.
- The total consideration paid for the services is $1 million, which represents approximate equal value. The Queensland Government only funds 50% of the cost and will receive 100% of the services. However, when determining whether approximate equal value is exchanged for classification purposes, Agency CDE compares the value of the services received to the whole $1 million payment. (The 50% contribution by the Australian Government is a separate revenue transaction recognised as per Part 1.)

***Direct benefit for the agency?***

- The agreement between Agency CDE and the NGO specifies the services to be delivered. Agency CDE directs the services through the funding agreement.

**Conclusion to Part 2: procurement**

Based on analysis of the factors provided, the substance of the arrangement is procurement as Agency CDE directly receives specified services of approximate equal value in exchange for the $1 million consideration provided. *NB. As this transaction is classified as procurement, to the extent that the NGO has not delivered services to Agency CDE as per the agreement, Agency CDE will recognise a prepayment (asset).*

**Case Study 7: Funding arrangement with multiple payment elements**

***Background***

Agency STU entered into a service agreement with a not-for-profit company to deliver helicopter services to patients. The agreement entered into determines the following:

- The company will be paid on an activity basis (a rate per hour of service delivered). The hourly rate paid is based on the commercial value of the service delivered by the company. The company provides Agency STU with a monthly invoice for services delivered (flight hours) to patients.

- In addition, Agency STU will provide the company with annual core funding payments to assist with the general operations of the not-for-profit entity. The core funding payment is paid at the beginning of each year as non-conditional and the amount does not need to be returned. The payment is used by the company at its discretion, according to prevailing needs around that time. Furthermore, the core funding payment does not reduce Agency STU's service cost, nor does it ensure a specified service.

- The contract runs for a period of three years, and contains terms and conditions that make it legally enforceable.

Agency STU does <u>not</u> have a legislative obligation to provide transport to patients, however, there is considered to be a public expectation that this service will be delivered (based on its past practice over the last 10 years).

***Analysis***

<u>Step 1 - Gain an understanding of the arrangement:</u>

- **What are the goods and services?** The company is providing flight services to patients on behalf of Agency STU.
- **Obligations in the agreement:**

  *Hourly rate:*
  - The agreement is specific and sets out the nature of the service to be provided by the company, the period over which it will be provided and determines that fees will be paid per hour of service delivery.

  *Annual core funding payment:*
  - There is <u>no</u> obligation on the company to perform any service or meet any objectives of Agency STU in return for the core funding payment.
- **Overall intent/purpose:** To provide transport to patients.

**Case Study 7: Funding arrangement with multiple payment elements**

Step 2 - Application of classification principles:

***Approximately equal value?***

*Hourly rate:*

- The agreement is specific and sets out the nature of the service to be provided by the company, the period over which it will be provided and determines that fees will be paid per hour of service delivery.
- The total amount of the payment is based on the service delivered (i.e. hours of flying time provided).
- The benefits of the service are quantifiable and commercial in nature.

*Annual core funding payment:*

- There is no obligation on the company to perform any service or meet any objectives of Agency STU in return for the core funding payment.
- The ultimate aim of this funding is to provide financial assistance to the company to ensure it carries on as a going-concern.
- The annual payment has not been structured to reduce the service cost. Approximately equal value is therefore not received by Agency STU from the annual payment component.

***Direct benefit for the agency?***

*Hourly rate:*

- The contract specifies the service to be delivered. The terms and conditions of the funding agreement are sufficiently specific and directive to ensure that the service is provided (i.e. Agency STU controls the services).
- Agency STU is paying the company to provide the services on its behalf.

*Annual core funding payment:*

- The payment is not paid for a specified good or service.
- The company has full discretion as to how these funds can be spent.

**Conclusion: procurement**

Based on analysis of the factors provided, the amount paid in the form of an hourly rate to the company would be classified as procurement as Agency STU meets its obligations by obtaining specified services.

The annual core funding payment would be classified as a grant, as Agency STU does not receive a direct benefit of approximately equal value.

| Case Study 8: Recurrent funding arrangement |
| --- |
| ***Background***<br>Under the *Housing Act 2003* (the Act), the Chief Executive of Agency DEF may grant assistance or funding to a service provider for the provision of housing services as defined under the Act.<br><br>Agency DEF entered into such an assistance agreement with a service provider. The assistance is for the service provider to deliver services under a Crisis Accommodation Program (CAP) to help eligible people with housing needs and move them towards independent living. The agreement with the service provider contains terms and conditions that enable Agency DEF to enforce the service provider's obligations (and Agency DEF intends to do so, if necessary). The key circumstances are:<br><br>• CAP is a Queensland and Australian Government funded program under the National Affordable Housing Agreement.<br><br>• CAP is administered by Agency DEF, and primary obligation for delivery of services rests with the agency.<br><br>• Description of services the service provider is funded to deliver:<br>➢ All premises utilised by the provider in supplying services must be maintained to a high standard. Any maintenance undertaken by the provider must be carried out in a tradesperson-like and lawful manner and should be of good quality.<br>➢ The funding provided under the assistance agreement must be utilised by the service provider for the delivery of housing services and only for allowable expenditure (as defined in the program specifications). Furthermore, the services can only be delivered in the geographic locations where Agency DEF specifies that services are required. Agency DEF specifies the eligibility criteria for provision of the specified housing support.<br>➢ The funding provided by Agency DEF is based on estimates of costs that would be incurred using an efficient service delivery model and appropriate cash management.<br>➢ Any money earned by the service provider e.g. through rent/board and bank account interest, must be dealt with as if funding was provided directly by Agency DEF.<br>➢ If a large portion of funding remains unspent at the end of a particular period (six months), then the agency can adjust future funding to take into account the |

**Case Study 8: Recurrent funding arrangement**

unspent amount (i.e. reduce the next instalment of funding) or authorise the use by the service provider of the unspent amount for another purpose.

- No capital funding is provided.  The service provider owns the property used to deliver the housing services.
- The provider must supply to Agency DEF information related to the provider's operations upon reasonable requests from Agency DEF.
- Payment of the funding under the terms of the assistance agreement will be made in advance every six months, subject to the lodgement of all statements and reports by the provider as required under the agreement.

The provider may have an entitlement to receive funding from other agencies of the Queensland or Australian Governments.  The provider may also have an ability to seek funding assistance from private sources.

***Analysis***

Step 1 - Gain an understanding of the arrangement:

- ***What are the goods and services?*** The service provider is funded to deliver housing services to eligible individuals.
- ***Obligations in the agreement***:  The agreement is sufficiently specific and sets out the nature of the services to be provided, the payment terms, the period of service as well as requirements around excess funding.
- ***Overall intent/purpose***: To provide housing services as defined by the CAP.

Step 2 - Application of classification principles:

***Approximately equal value?***

- Activities are quantifiable in dollar terms as the funding is to be applied to allowable expenditure, and is based on estimates of resonable costs to deliver such services.
- Funding provided is pre-determined, but records/statements are required to be kept by the service provider and supplied to Agency DEF to demonstrate how the funding was spent.  If any funding is unspent, future payments by Agency DEF can be reduced by the unspent amount (i.e. in essence a return of unspent funding).

***Direct benefit for the agency?***

- Agency DEF directs the use of the funds, as funding is only provided for services delivered in line with the assistance agreement.

**Case Study 8: Recurrent funding arrangement**

- Agency DEF directs the service provider to deliver specified services to identified individuals (eligible persons) on its behalf. The terms and conditions of the agreement are sufficiently specific and directive to ensure achievement of Agency DEF's obligations under the CAP.

**Conclusion: procurement**

Based on analysis of the factors provided, the arrangement would be classified as procurement as Agency DEF receives approximately equal value by directing the use of the funds to meet its obligations. This results in a direct benefit to Agency DEF.

NB. As this transaction is classified as procurement, to the extent that the service provider has not delivered services to Agency DEF as per the assistance agreement (and met any other obligations), Agency DEF will recognise a prepayment (asset).

**Case Study 9: Acquisition of services via an interposed entity**

***Background***

Under an intergovernmental agreement, Agency JKL is responsible for the provision of services to eligible young people with a disability. In some cases, such young people reside in privately-run aged care facilities. Those aged care facilities receive their primary funding from the Australian Government.

To reimburse the Australian Government for its funding costs that relate to Agency JKL's responsibilities, the agency pays the Australian Government an annual lump sum based on the estimated cost of service delivery and projections of the number of eligible young people in the relevant aged care facilities during the coming financial year. The Australian Government and Agency JKL agree on the methodology for estimating the amount of this payment, which is reviewed annually.

Step 1 - Gain an understanding of the payment:

- **What are the goods and services?** Residential care for eligible young people with a disability.
- **Obligations in the agreement**: The payment obligations are based on estimates of the costs incurred by private sector providers for an estimated number of eligible people.
- **Overall intent/purpose:** To fund costs that Agency JKL is responsible for.

Step 2 - Application of classification principles:

***Approximately equal value?***

- The amount of the lump sum payment is based on the estimated cost of housing a particular number of eligible people (that Agency JKL has an existing obligation to finance).

**Case Study 9: Acquisition of services via an interposed entity**

***Direct benefit for the agency?***

- The private sector providers deliver a service that satisfies obligations that Agency JKL would otherwise have.

**Conclusion: procurement**

Based on analysis of the factors provided, the arrangement would be classified as procurement as Agency JKL receives a direct benefit of approximately equal value, as its obligations are met by services delivered by the private sector providers.

NB. As this transaction is classified as procurement, to the extent that agreed services have not been provided, Agency JKL will recognise a prepayment (asset).

**Case Study 10: Acquisition of services via an interposed entity**

***Background***

A not-for-profit non-government organisation (NGO) initiated a program of protecting koala habitats throughout the state and has been running the program for a number of years using money obtained from fund raising activities, private sector donors and government contributions.

Agency RST is responsible for environmental protection and has decided to contribute funding to the NGO's koala program this year as part of its strategic plan. In the funding agreement, the NGO has specified the activities it will carry out using the funding (activities determined by the NGO) and that monies not spent on those activities will be returned to Agency RST.

The NGO's annual koala protection plan goes beyond the activities specified in the funding agreement, with the other activities being carried out using funding obtained from other sources.

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** Koala protection activities as determined by the NGO
- **Obligations in the agreement:** The NGO is to spend funding received from Agency RST on the agreed specified activities, with funding to be returned if not spent on those activities
- **Overall intent/purpose:** To contribute to the NGO's koala protection program in line with Agency RST's strategic plan

| **Case Study 10: Acquisition of services via an interposed entity** |
|---|
| Step 2 - Application of classification principles:<br><br>***Approximately equal value?***<br>• The amount of funding is determined on the basis of agreed activities to be carried out by the NGO<br><br>***Direct benefit for the agency?***<br>• Agency RST has undertaken in its strategic plan to contribute funding towards the NGO's koala program, but it has not undertaken primary responsibility for the operation of the program<br>• The specific activities to be performed are determined by the NGO<br>• As a result, Agency RST does not control the services provided and only obtains an indirect benefit by way of increased koala populations<br><br>**Conclusion: grant**<br>Based on analysis of the factors provided, the arrangement would be classified by Agency RST as a grant as it does not receive a direct benefit of approximately equal value in return. |

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