QUEENSLAND TREASURY

Financial Reporting Requirements for Queensland Government Agencies

CHAPTER 5 – FRR 5A to FRR 5D

Applicable to 2025/26 or 31 December 2026 Financial Years

DELIVERING FOR QUEENSLAND

Queensland Government

Translating and interpreting assistance

FRR 5A Statement of Cash Flows

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 mandatory policy items in practice.

TABLE OF CONTENTS

5A.1 PRESENTATION OF CASH FLOWS 2

5A.1 PRESENTATION OF CASH FLOWS

REFERENCES

- AASB 107 *Statement of Cash Flows*
- AASB 1054 *Australian Additional Disclosures*
- Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*

POLICY

- **The required line items for the Statement of Cash Flows are as outlined in the corresponding model financial statements unless the line items are not applicable to the entity.**
- **An agency must report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.**
- **GST cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.**
- **To maintain consistency with whole-of-Government reporting, agencies must classify:**
  - **dividends paid as cash flows from financing activities; and**
  - **interest paid, and interest and dividends received, as operating cash flows.**
- **Cash flows in relation to the Paid Parental Leave Scheme are to be recognised as part of 'Cash flows from operating activities – Other'.**
- **A Statement of Cash Flows is not required for a department's 'administered' transactions if the 'note only' presentation is adopted.**

APPLICATION GUIDANCE

Agencies have discretion on how GST is presented in their statement of cash flow providing that GST cash flows are included on a gross basis as required by AASB 107 and Interpretation 1031.

To meet the reporting objective, several presentation options available to agencies.
Option 1 is illustrated in FRR 6A and 6B, however agencies are free to choose a presentation that best reflects their particular circumstances.

Agencies should also ensure that the words *"inclusive of GST"* are only included for line items where GST is applicable.

Option 1. Gross operating flows + single net GST settlement line

Indicative presentation of line items:

Inflows

- User charges and fees (inclusive of GST)
- Grants and other contributions (inclusive of GST)

Outflows

- Payments for supplies and services (inclusive of GST)
- Grants and subsidies (inclusive of GST)
- One line: "GST received from / paid to ATO (net)"

Option 2. Gross operating flows with GST settlement separately itemised

Indicative presentation of line items:

Inflows

- User charges and fees (inclusive of GST)
- Grants and other contributions (inclusive of GST)

Outflows

- Payments for supplies and services (inclusive of GST)
- Grants and subsidies (inclusive of GST)
- Separate lines for:
    - GST paid to ATO
    - GST received from ATO

Option 3. Gross operating flows only with no explicit GST line

Indicative presentation of line items:

Inflows

- User charges and fees (inclusive of GST)
- Grants and other contributions (inclusive of GST)

Outflows

- Payments for supplies and services (inclusive of GST)
- Grants and subsidies (inclusive of GST)
- No separate GST line (as the "GST received from / paid to ATO)" is reflected in the lines above).

Option 4. Gross operating flows - all GST amounts separately itemised.

Indicative presentation of line items:

Inflows

- User charges and fees
- Grants and other contributions
- GST collected from customers
- GST received from ATO

Outflows

- Payments for supplies and services
- Grants and subsidies (inclusive of GST)
- GST paid on supplies and services
- GST remitted to ATO

FRR 5B Related Party Transactions

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.

TABLE OF CONTENTS

5B.1 GENERAL DISCLOSURE MATTERS 2

5B.2 TRANSACTIONS NOT CONNECTED WITH KMP 4

5B.3 TRANSACTIONS CONNECTED WITH KMP 6

APPENDIX 1 RECOMMENDED DECLARATION FORM TO COLLECT RELATED PARTY INFORMATION FROM NON-MINISTERIAL KMP 12

5B.1 GENERAL DISCLOSURE MATTERS

REFERENCES

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 124 *Related Party Disclosures*
- AASB 128 *Investments in Associates and Joint Ventures*

POLICY

- **AASB 124 is only to be applied at the reporting entity level, not to lower levels of an agency (such as Commercialised Business Units (CBUs)).**

APPLICATION GUIDANCE

In working through the various elements of the related party definition in AASB 124, agencies should acknowledge that paragraph 9(a)(i) and (ii) have no application in a Government context (as “control”, “joint control” and “significant influence” are to be interpreted according to AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 128 *Investments in Associates and Joint Ventures*, respectively).

AASB 124 judgements generally applied on a case-by-case basis

Agencies need to exercise judgement about which related party transactions should be disclosed in financial statements based on all available information about transactions, in the context of AASB 124’s requirements and the stated objective in paragraph 1 of AASB 124. Such judgements generally need to be made on a case-by-case basis.

Qualitative materiality more relevant to related party transactions

Qualitative materiality, according to the specific circumstances of a transaction, is more likely to be a key determinant of whether the transaction warrants financial statement disclosure.

Indicators of potential materiality include:

- if a transaction did not follow applicable employment/procurement processes that apply to unrelated parties (with an implication that the agency may be receiving/paying significantly more or less than with an unrelated party);

- if the terms and conditions of the transaction differ from those that would apply to unrelated parties (with an implication that the agency may be receiving/paying significantly more or less than with an unrelated party);

- if knowledge of the related party's involvement in the transaction could lead to a perception that the transaction may have/had a material financial impact on the agency; and

- in the case of employment of a KMP's close family member within the agency - the position is a senior/influential role within the agency.

Materiality assessment relative to the reporting entity, NOT related party

In assessing materiality of a related party transaction, the focus should be on the reporting entity, NOT necessarily any special advantage that the related party may have received compared to an unrelated person. If no identifiable impact can be determined for the reporting entity, then it would not likely warrant financial statement disclosure.

In disclosing material related party transactions, Treasury's position is that paragraph 18 of AASB 124 does not require the identification of the people or entities that are party to the transaction.

Where an agency's controlled entity is itself a reporting entity, that controlled entity needs to prepare its own general purpose financial statements and comply with AASB 124 from its own perspective.

In preparing consolidated financial statements, for transactions between any entity within the consolidated group and related parties external to that group, materiality should be assessed from the perspective of the consolidated group, rather than at the individual entity level. Where such transactions are with Government-related entities, the separate AASB 124 disclosure requirements for such transactions apply.

5B.2 TRANSACTIONS NOT CONNECTED WITH KMP

REFERENCES

- AASB 124 *Related Party Disclosures*

POLICY

- **The disclosure requirements of AASB 124 apply to both controlled and administered transactions and balances.**
- **Tier 1 agencies are required to adopt the limited disclosure approach for transactions with Government-related entities outlined in paragraphs 25 - 27 of AASB 124.**

APPLICATION GUIDANCE

Agencies need to implement their own approach to identifying related party transactions not connected with their KMP e.g. transactions with Government, controlled entities, associates, joint ventures, and other Queensland Government-controlled entities.

<u>Parent & controlled entities might be Government-related entities</u>

In terms of the categories of related parties listed in paragraph 19 of AASB 124, some of those parties (e.g. the whole-of-Government parent (where applicable) and controlled entities), also meet the criteria for Government-related entities (refer to the sub-section below). Hence, transactions with some of those categories of entities can be disclosed according to the separate requirements for Government-related entities (in paragraphs 25 – 27), instead of paragraph 18 of AASB 124.

Treasury doesn’t expect agencies to have material transactions to disclose regarding post-employment benefit plans (refer to paragraph 9(b)(v) of AASB 124).

Also, sub-paragraph 9(b)(viii) of AASB 124 (key management personnel services) only applies where another entity takes full responsibility for the KMP roles, duties and responsibilities for the agency. That may involve providing individuals to operate the agency concerned (e.g. an employing office for a statutory body) or providing services to the agency that effectively constitute the planning, directing and controlling activities that would be undertaken by KMP.

Para.25-27 of AASB 124 apply to material administered transactions with Government-related entities

In making disclosures about material administered transactions/balances, agencies should determine their approach consistent with the limited amount of information otherwise provided about administered transactions and balances.

Where material administered transactions/balances are with other Queensland Government-controlled entities (refer to the sub-section below), the limited disclosure approach in paragraphs 25-27 of AASB 124 applies.

Government-related entity transactions

Government-related entities are any entities 'controlled' by the Queensland Government. For this purpose, the term 'control' is as per AASB 10 *Consolidated Financial Statements*. All departments, Government-owned corporations and almost all statutory bodies are Government-related entities.

One source of guidance about which entities are controlled by the Queensland Government is the list of Tridata entities in the WoGFIR manual, or the Controlled Entities note in the annual Report on State Finances of the Queensland Government (on Treasury's web site). However, there are other smaller Government entities also controlled by the Queensland Government but not consolidated as they don't meet the monetary thresholds for Tridata reporting. As necessary, agencies are advised to do their own research to confirm the legal status of entities they have significant transactions with.

Small number of entities not controlled by Queensland Government

Agencies should note that there are a small number of Queensland Government entities not regarded as being controlled by the Queensland Government (e.g. universities, grammar schools, and water distributor-retailers such as Queensland Urban Utilities). Therefore, those entities do not have the same Government “parent” for the purposes of identifying and disclosing transactions with a Government-related entity.

Assess significance – individually & collectively

Tier 1 agencies are responsible for assessing which Government-related entity transactions, if any, are individually significant or collectively significant to warrant disclosure under paragraphs 26-27 and BC22 of AASB 124 (Tier 2 entities being exempted from those disclosures under AASB 124). For that purpose, agencies should develop a position about what sort of Government-related transactions are 'significant' to them. This would ensure agency effort is focussed on identifying those types of transactions (about which there should be general corporate knowledge), rather than identifying all Government-related entity transactions.

Mirror disclosures between Government-related entities not necessary

As these disclosures do not impact on reported figures, and the significance of Government-related entity transactions depends on the individual entity, it is not necessary for each party to these transactions to have "matching" narrative disclosures.

Where one agency acts as "agent" for another Queensland Government entity, and reflects underlying transfers to/from that entity only in note disclosures, such transfers do not impact on the financial performance or position of the agent, so should not be considered for AASB 124 purposes.

5B.3 TRANSACTIONS CONNECTED WITH KMP

REFERENCES

- AASB 124 *Related Party Disclosures*
- FRR 3C *Employee Benefits Expenses and Key Management Personnel Remuneration*
- *Information Privacy Act 2009*
- Information Privacy Principles
- *Right to Information Act 2009*

APPLICATION GUIDANCE

Self-declaration by KMP is recommended approach

Self-declaration by KMP is Treasury's recommended approach to collect the necessary information about related party transactions with KMP, their close family members and any entities that those people control or jointly control.

Declarations of interests currently made by KMP pursuant to *the Public Sector Act 2022* are not suitable for the purposes of AASB 124 for the following reasons:

- the objective of AASB 124 is to facilitate transparency about the extent to which an agency's operating result or financial position has been affected by transactions with related parties, rather than for conflict of interest purposes;
- the existing declarations deal more with personal investments and other asset holdings, rather than identifying transactions with Queensland Government entities;
- the definition of "related party" for the purposes of AASB 124 is potentially significantly broader than what applies under the existing declarations; and

- legally, the information provided via the existing declarations is unable to be used for any other purpose (e.g. for disclosure in financial statements).

The people who meet the KMP definition for their agency (which the agency concerned determines) also comprise a much narrower sub-set of the people who provide declarations under the *Public Sector Act 2022*.

Appendix 1 – Recommended forms to collect related party information

Appendix 1 provides a recommended format for agencies to use to collect sufficient information from their non-Ministerial KMP regarding related party transactions (further guidance in using this format is outlined below). This format includes guidance for identifying who is "related" to a KMP, explains what transactions are not required to be declared by a KMP, and refers to the application of the *Information Privacy Act 2009* (IP Act) and the *Right to Information Act 2009* (RTI Act).

Agencies will note that KMP are to identify all their own related parties (both people and entities) in the declaration form. This information is necessary to enable external auditors to conduct the necessary audit work according to Australian Auditing Standard ASA 550 *Related Parties*.

Treasury acknowledges that application of AASB 124's "close family member" definition may be difficult for KMP from diverse cultural backgrounds (e.g. KMP from Indigenous communities). In these circumstances, **IF** the guidance in Appendix 1 to the recommended declaration form is clearly not acceptable to the KMP concerned, the KMP may identify their "close family members" in the way that is acceptable to them.

Employment of Close Family Members

Part B of the declaration form covers the employment of close family members of the KMP in a position equivalent to, or above, Senior Executive Service (SES) classification. Where an agency is not subject to the SES classifications issued by the Public Sector Commission (PSC), the agency may refer to the SES remuneration rates issued by the PSC as a guide in determining the equivalent employment positions that are significant due to their seniority/influential nature within that agency. These rates are in the PSC directive *"Senior Executive Service – Employment Conditions"* which can be accessed at:
https://www.forgov.qld.gov.au/pay-benefits-and-policy/directives-policies-circulars-and-guidelines.

Agency practices for collection of information from non-Ministerial KMP

Agency responsibilities

Agencies need to implement their own strategies for co-ordinating collection of information from their non-Ministerial KMP, including:

- initial and ongoing education/advice for non-Ministerial KMP (particularly with turnover of KMP) about completion of declarations;
- skills and seniority of the officers who will be handling the personal information;
- secure arrangements for the storage of, and access to, completed declarations; and
- skills and seniority of the officers assessing whether or not financial statement disclosure is warranted, drafting any necessary disclosures, and dealing with external auditors about associated matters.

Who and when?

Agencies must only collect information from those agency-specific officers who meet the KMP definition for a material portion of the financial year (including where this was under a short-term staffing arrangement). There should be consistency with who will be reflected in the agency's KMP remuneration note disclosure. Agencies should also heed the guidance about identifying KMP for their agency (including for short-term arrangements) in FRR 3C Employee Benefits Expenses and Key Management Personnel Remuneration (refer to both FRR 3C.3 and FRR 3C.4).

Agencies responsible for determining frequency of collection

Agencies are responsible for determining how frequently they collect information from their non-Ministerial KMP, ensuring an appropriate balance between minimising administrative effort while optimising timely collection of information. More frequent information collection assists in identifying potential changes in a KMP's own related parties during the year. Agencies should also note:

- circumstances that should trigger information collection from KMP include abolition of an agency, significant organisational re-structuring within individual agencies, turnover of KMP, and short-term staffing arrangements that would meet the KMP definition (if those are for a material portion of the financial year – refer to FRR 3C.3);
- judgements about who meets the KMP definition at any time during the financial year (e.g. with short-term arrangements) may therefore be required much earlier than previously

(N.B. KMP only need to declare information in respect of the period(s) of time they met the KMP definition); and

- collection of information should be incorporated into the exit processes for KMP who leave the agency, where a significant amount of time has elapsed since their last completed declaration. Individual agencies need to determine their own strategy to facilitate this.

Working with completed non-Ministerial KMP declarations

Agency staff needs to be aware that the content of completed declarations, including any notes written on them, may be subject to disclosure under the RTI Act. As the completed declarations contain personal information, agencies need to ensure that they are managed and used in accordance with the requirements of the IP Act, including the Information Privacy Principles. To ensure there is no question about compliance with Information Privacy Principle 11 Limits on Disclosure, agencies should ensure that External Audit Plans and/or Client Assistance Schedules with external auditors include a standard request by auditors for access to completed declarations for the audit of the financial statements pursuant to the *Auditor-General Act 2009*.

The recommended declaration form in Appendix 1 is designed to enable agencies to implement greater security measures over information declared by KMP regarding their close family members and their controlled entities. Therefore, the Word versions available directly from the FRR web page facilitates collection of that personal information in a separate document (Part A), enabling that information to be stored separately from transactional information (Part B) used to determine financial statement disclosures.

Part A also contains an option to allow individual KMP to avoid repeating such personal information, provided the details in the KMP's own last fully completed Part A remain correct. Agencies will also note that explanatory information is now located in a separate Word document. Agencies are free to decide whether this division of material into separate documents is practical for them.

If agencies use Treasury's recommended declaration forms, (given the wording of the KMP certifications) agencies should rely on the information supplied by their non-Ministerial KMP, acknowledging that the KMP completes their declaration to their best of their knowledge. This declaration process, and AASB 124 itself, are not intended to identify, or deal with, governance or probity issues. However, where a transaction between the agency and a KMP-related person/entity comes to light, and has not been declared by the KMP concerned, agencies cannot ignore that information in complying with AASB 124. Agencies are reminded that those officers certifying the agency's annual financial statements are required to attest to the material compliance of those statements with prescribed requirements.

Agencies to undertake their own verification of transaction details

Agencies need to undertake their own verification of any transaction details declared by KMP (both figures and other information) before determining whether or not a financial statement disclosure will be required. Such verification is best undertaken soon after receipt of the completed declarations.

Agencies should note that the recommended declaration format does not ask the KMP to provide information about matters that the agency is best placed to "source", based on the information declared (e.g. more specific information about the transaction, associated receivables or payables, provisions for impairment, bad debt expenses etc).

Not all information collected will be disclosed in financial statements

Not all information collected from KMP will be required to be disclosed in financial statements, or in the same level of detail as revealed via declarations.

Collection of information from Ministerial KMP

All Ministers' related parties related to all Qld Govt-controlled entities

As all Ministers meet the KMP definition of the Whole-of-Government, all Ministers, their close family members, and any entities controlled or jointly controlled by any of those people, are related to all Queensland Government-controlled entities (refer to the latter part of FRR 5B.2) for related party transaction purposes.

Agencies must not collect information from Ministers

However, regardless of whether or not an agency's responsible Minister (where applicable) is reported as part of its KMP, **agencies MUST NOT collect information from their Minister for related party disclosure purposes**.

Instead, the Ministerial information collection process will be centrally managed by Queensland Treasury, the Department of the Premier and Cabinet, and the Integrity Commissioner. The Queensland Audit Office (QAO) will also audit this information centrally.

Where transactions are identified, affected agencies will be contacted and advised ahead of audit certification of their financial statements by QAO. The information collected through that process will meet the needs of individual reporting entities that are controlled by the Queensland Government.

The central process will include:

- collection of information from Ministers and secure storage of that information;
- review of completed declarations to determine potential transactions to be disclosed;
- where such transactions are identified, liaison with relevant Queensland Government entities to verify transactional information collected will occur to obtain further information required for financial statement disclosures. Ordinarily, this liaison is planned to occur during June and July each year;
- drafting of proposed disclosures on behalf of the Queensland Government entity involved in the transaction;
- consultation with the Minister concerned re the proposed disclosure;
- negotiation of the proposed disclosure with QAO, and handling (in the first instance) of questions from external auditors regarding related party transactions connected with Ministers; and
- supply of the agreed financial statement disclosure to the entity involved in the transaction. This will ordinarily be supplied by early August each year.

APPENDIX 1 RECOMMENDED DECLARATION FORM TO COLLECT RELATED PARTY INFORMATION FROM NON-MINISTERIAL KMP

The following declaration format has been primarily designed to enable completion in Microsoft Word, and the key tables for completion by KMP incorporate drop-down lists and check boxes to assist with completion. Agency KMP should be encouraged to complete their declarations using Microsoft Word and is designed for completion in the following steps:

- Part A - Who are my close family members (irrespective of the existence of transactions)?
- Part A - Do I, or any of the people I've listed as close family members, control or jointly control any entities (irrespective of the existence of transactions)?
- Part B - Did I, or any of the people or entities I've already identified in the declaration, enter into a transaction with the reporting entity, according to any of the transaction types outlined in the declaration form?
- If the answer is "yes" to the above question, a limited amount of information about such transactions is requested of the KMP via Part B.

Before issuing blank declaration forms to KMP, agencies need to complete/review:

- in each Word document - identification of the agency and its controlled entities, and the period of time to be considered by the KMP when completing the declaration (which will depend on your agency practice regarding frequency of collecting declarations); and
- in the privacy statements in Part A and Part B - details of specific entities, to comply with information privacy requirements. "Names of entities that may be provided with copies of completed Part A/Part B" refers to other entities (other than Queensland Treasury and external auditors), if any, that will be involved in reviewing completed declarations and/or drafting of related party disclosures in respect of non-Ministerial KMP. If there are no other such entities, the sentence can be revised to refer simply to Queensland Treasury (in case of Treasury ever being asked for advice about a specific scenario).

Due to paragraph 9(a)(iii) of the "related party" definition of AASB 124, in determining whether there is a transaction to declare, KMP need to consider transactions that they, their close family members and/or any entities controlled or jointly controlled by any of them, have entered into with:

- the Government reporting entity for which they are a member of KMP; and
- where that reporting entity also controls any other entities – any of those controlled entities.

Agencies need to ensure this is clear to their KMP via the entities listed on the first pages of Part A and Part B.

DECLARATION OF RELATED PARTY INFORMATION BY NON-MINISTERIAL KMP

EXPLANATORY INFORMATION AND APPENDICES

Why you have received the accompanying declaration forms:

<u>You have been identified by the Queensland Government entity named on first page of Part B as a member of its KMP.</u>

"Key management personnel" (KMP) of an entity (e.g. the Queensland Government) are people with the authority and responsibility for planning, directing and controlling the activities of that entity, directly or indirectly.

Any questions in relation to the application of the KMP concept to you, or the completion of Part A and/or Part B, should be directed to the entity that distributed these forms to you.

Why you need to complete the accompanying declaration forms:

The *Financial Accountability Act 2009* requires that the published financial statements of departments and statutory bodies comply with Australian Accounting Standards.

The Australian Accounting Standards Board (AASB) has extended the scope of Australian Accounting Standard AASB 124 *Related Party Disclosures* (the standard) to include not-for-profit public sector entities. This is effective from 1 July 2016, and means that annual financial statements for 2016-17 and onward must comply with the standard.

The standard's objective is to ensure that information provided in an entity's financial statements highlights that the existence of, and transactions or amounts receivable/payable (including commitments) with, "related parties" may have affected the entity's operating result and/or financial position.

For the purposes of the standard, related parties include KMP, their close family members, and entities any of those people control or jointly control. An illustration of how the related parties concept (for the purposes of this standard) applies is set out in Appendices 1 and 2.

Part A and Part B are designed to collect information from you to enable Queensland Government entities' compliance with the standard. You will be requested to provide new declarations one or more times during each financial year in respect of periods of time you meet the KMP definition. This ensures relevant information for the full financial year is complete and collected in a timely manner. You will also be required to complete new declarations if you cease employment with your entity.

It is important that you carefully read and strictly follow the instructions and guidance contained in Parts A and B and in this guidance document, to optimise the relevance of the information provided.

NB. Completion of Parts A and B is in addition to declarations of interests you may have or may make under the Public Sector Act 2022. *Those declarations do not provide the information required for compliance with the standard. For example, the standard uses a much broader definition of "related parties" (refer to Appendices 1 and 2), and the information required by the standard is about transactions and amounts receivable from/payable to Queensland Government entities.*

What happens with the information you declare:

Your completed Parts A and B will be stored in compliance with relevant Queensland Government policies and entity-specific policies. Part A information that you provide will only be accessed by officers from the Queensland Audit Office.

<u>Financial Statement Disclosures</u>

Transactions you declare in Part B may be disclosed in the entity's published financial statements, in aggregate (as far as possible) as required by the standard. Not all information collected via Part B may require disclosure in those statements.

Information from financial systems that is directly associated with a related party transaction declared in Part B (e.g. amounts payable/receivable, debts written-off etc) may also be used when preparing disclosures to be included in published financial statements.

Judgement will be exercised by appropriately skilled officers and negotiated with the Queensland Audit Office, in determining which transactions and amounts receivable/payable warrant disclosure, based on the information provided.

<u>Information Privacy</u>

The *Information Privacy Act 2009* (IP Act) permits the collection and use of the personal information required by Parts A and B for the preparation of financial statements, including the disclosure of such personal information in those statements. The IP Act allows you to access declarations provided by you. Where you have declared information that identifies other people, those people may be able to access any information that concerns them under the IP Act.

<u>Right to Information</u>

The declaration is subject to the provisions of the *Right to Information Act 2009* (RTI Act), and may be disclosed by application under the RTI Act.

Where an application is received pursuant to the RTI Act, the usual decision-making processes under the RTI Act apply in determining whether or not to release the information requested.

APPENDIX 1

Definitions for Identifying Related Parties (People and Entities)

NB. The definition of "related parties" for this declaration is provided by Australian Accounting Standard AASB 124 Related Party Disclosures, and is much broader than the scope of people/entities that applies to declarations of interests made under the Public Sector Act 2022.

"Related parties" of an entity include:

- the entity's own KMP (including the entity's responsible Minister(s), if they meet the KMP definition);
- KMP of the entity's parent (i.e. each Minister, as the Whole of Government (WoG) is the "parent" of Queensland Government controlled entities, and all Ministers are regarded as KMP of WoG);
- any close family members (refer below) of people in the above two groups; AND
- any entities controlled or jointly controlled (refer below) by a person from any of the above three groups.

According to the standard, "close family members" are those family members who may be expected to influence, or be influenced by, you in their dealings with the [***insert names of entities identified on the first page of Part B***]. Close family members includes:

- your spouse or domestic partner – including married and de facto couples and civil union partnerships;
- your children or children of your spouse/domestic partner –. The term "children" applies to all children (including biological children, step-children, adopted children and children-in-law), regardless of their age and their degree of financial dependency on you or your spouse/domestic partner;
- dependants of you or your spouse/domestic partner – including family members who are financially supported by you or your spouse/domestic partner; and
- in exceptional circumstances, other close family members - refer to Appendix 2. These are other family members who would be expected to influence you, or be influenced by you, in relation to any of the entity/entities identified on the first page of Part A and Part B. Such people are likely to be family members that you are in regular contact with. This is a judgement to be made by you. In other words, *if a stranger became aware of the circumstances of your relationship with that family member, is it reasonable that the stranger would conclude that your relationship with that person would bias your decision-making regarding any of the entity/entities identified on the first page of Part A and Part B? For example – influence may exist if a person is involved in a business activity or investment with another family member, or if a person has legal authority (e.g. by way of a power of attorney) to make decisions on behalf of another family member.*

Appendix 2 depicts the "close family members" concept.

For the purposes of completing the tables in Parts A and B2, the following categories should be used to classify close family members or related entities:

- Myself
- My spouse/domestic partner
- My child (N.B. Minors do not need to be named provided the minor and their age is identified on the declaration form).
- My dependant
- Child of my spouse/domestic partner
- Dependant of my spouse/domestic partner
- Another close family member *(where this applies, please instead enter the nature of the relationship)*
- Entity controlled/jointly controlled by me
- Entity controlled/jointly controlled by my spouse/domestic partner
- Entity controlled/jointly controlled by my child
- Entity controlled/jointly controlled by my dependant
- Entity controlled/jointly controlled by child of my spouse/domestic partner
- Entity controlled/jointly controlled by dependant of my spouse/domestic partner
- Entity controlled/jointly controlled by another close family member *(where this applies, please instead enter the nature of the relationship)*

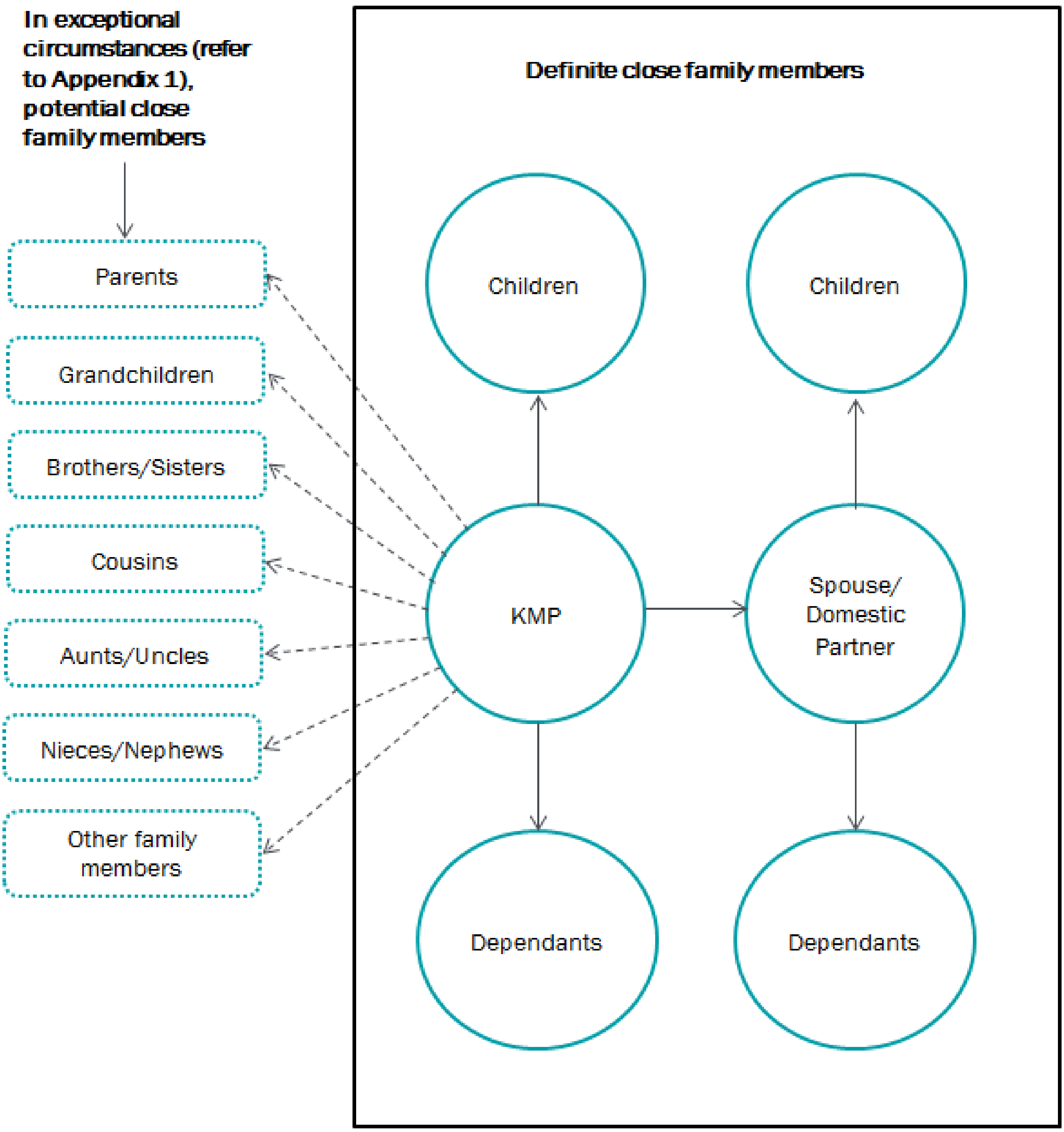
Control or joint control of an entity

In assessing whether a person controls or jointly controls an entity:

- "entity" refers to an entity of any legal form e.g. sole trader, partnership, company, trust etc;
- "control" should be regarded as existing where:
  - a person has 50% or more of the entity's voting rights e.g. as a director, KMP, trustee, through voting rights etc; AND
  - ownership of 50% or more of the entity's equity; and
- "joint control" exists where there is a contractually agreed sharing of control i.e. decisions about key business activities require unanimous consent of the parties sharing control.

ILLUSTRATION OF WHO WOULD BE CLOSE FAMILY MEMBERS OF A KMP

(refer to note below)



Note:

For the purposes of the "related parties" definition, any entities controlled or jointly controlled by any of these people would have the same definite/potential relationship to the KMP as applies to those people themselves.

Declaration of Related Party Information by non-Ministerial KMP

PART A - IDENTIFICATION OF YOUR RELATED PARTIES

for the period …../…../….. to …../…../…..

The information in this Part A will solely be used by the Queensland Audit Office to undertake its obligations under Australian Auditing Standard ASA 550 Related Parties. If this information is not obtained via this Part A, QAO may use other means to identify your related parties.

ONLY SIGN THE BELOW CERTIFICATE IF YOU HAVE PREVIOUSLY SUBMITTED A FULLY COMPLETED PART A AND THE DETAILS IN YOUR LAST FULLY COMPLETED PART A REMAIN CORRECT. OTHERWISE PLEASE COMPLETE THE REST OF PART A.

Key Management Person's certification

I, (print name below)

____,

(insert position title below)

____

1. declare that I have carefully read and understood this Part A and Appendices 1 and 2 (refer to separate guidance document);
2. declare that my related parties, including close family members and any entities controlled or jointly controlled by myself or a close family member (as per Appendices 1 and 2), identified in my last fully completed Part A remain accurate and complete in respect of the abovementioned timeframe; and
3. give permission for the Queensland Audit Office to continue to access my last fully completed Part A, as outlined in the privacy statement that accompanied that declaration.

Signed:

____

Date: ______________/_______________/______________

PLEASE COMPLETE THE REST OF PART A IF EITHER:

- **YOU HAVE NOT PREVIOUSLY SUBMITTED A FULLY COMPLETED PART A; OR**
- **THE DETAILS IN YOUR LAST FULLY COMPLETED PART A ARE NO LONGER COMPLETE AND ACCURATE**

Please list below any entities you control or jointly control (*refer to Appendix 1 in separate guidance document):*

Relationship of close family member to you (*please copy more blank rows including drop-down boxes, or attach separate sheet, if insufficient space*)	**Name(s)**	**Name(s) of any entities that this person controlled or jointly controlled <u>at any time during the period this declaration covers</u>**
"Close family members" who met that definition <u>at any time during the period this declaration covers</u> *(refer to the categories of "close family members" in Appendix 1 in separate guidance document). Click on the text in the rows below and choose from the drop down list supplied, if completing this Part A using Microsoft Word.* **This information is required, <u>regardless of whether or not that person/entity was a party to a transaction/arrangement</u> with [*insert name of agency and all controlled entities (where applicable) regardless of whether they are consolidated*]**		
Select relationship to you		
Select relationship to you		
My child (include children-in-law, step-children etc)		
Select relationship to you		
Select relationship to you		
Select relationship to you		
Select relationship to you		
Select relationship to you		
Select relationship to you		
Did you have <u>any other family members</u> who may influence, or be influenced by, you <u>at any time during the period this declaration covers</u>? If so, please also complete the details in each column below *(refer to Appendices 1 and 2 in separate guidance document)*:		

Key Management Person's certification

I, (print name below)

____,

(insert position title below)

____

1. declare that I have carefully read and understood this Part A and Appendices 1 and 2 (refer to separate guidance document);
2. declare that I have listed all my related parties (as per Appendices 1 and 2) that existed <u>at any time</u> during the period that this declaration covers, including close family members and any entities controlled or jointly controlled by myself or a close family member;
3. declare that, to my knowledge, the information provided in this Part A is accurate and complete;
4. declare that where I have provided information about a related party, I have advised that related party that I have declared information about them, the purposes for which that information will be used, and who may review that information (as per the below privacy statement); and
5. give permission for the disclosure of the information provided in this Part A to the Queensland Audit Office, as outlined in the below privacy statement.

Signed:

____

Date: ______________/_______________/______________

Privacy Statement – The main purposes of the collection of information via this Part A are to assist in:

- the preparation of financial statements in accordance with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
- the audit of those financial statements in accordance with Australian Auditing Standard ASA 550 *Related Parties*.

The collection of personal information on this Part A is authorised by the *Financial Accountability Act 2009*.

Information collected via this Part A will be disclosed to the **[*insert names of entities that may be provided with copies of completed Part A*]**, officers of the Queensland Audit Office and/or other authorised auditors under the *Auditor-General Act 2009* for the purposes of auditing the financial statements. The Queensland Auditor-General may disclose certain information collected via this form to the Crime and Corruption Commission, as permitted by the *Auditor-General Act 2009*. The personal information collected via this form will not be disclosed to third parties, other than those mentioned above, unless with consent or as authorised or required by law.

Declaration of Related Party Information by Non-Ministerial KMP

PART B - IDENTIFICATION OF RELATED PARTY TRANSACTIONS

for the period …../…../….. to …../…../…..

in relation to [*insert name of agency and all controlled entities (where applicable) regardless of whether they are consolidated*]

PART B1 - DETERMINE EXISTENCE OF RELATED PARTY TRANSACTIONS

NB. In completing Part B1:

- please ensure you also consider transactions/arrangements (including amounts payable/receivable) that commenced prior to and continued during the period of time covered by this declaration;
- whether or not cash was exchanged between the parties is irrelevant; and
- DO NOT include transactions/arrangements that apply to ordinary citizens (refer to guidance below).

"Ordinary citizen transactions"

These are transactions that form part of the usual course of business of the entity concerned, where the terms, conditions, rights, entitlements and obligations (e.g. payment charged) of the transaction are no different from those applying to any other member of the general public (or any other unrelated entity, as the case may be). For instance, if there is an exemption from payment, or a reduction in the payment, because of the related party relationship, the transaction is not an ordinary citizen transaction. Further, employment of a close family member should not be considered an ordinary citizen transaction.

Examples of ordinary citizen transactions may include:

- payment of registration fees for motor vehicles, professional registration etc;
- use of public hospital services;
- attendance at state schools;
- entry to Queensland Government events, facilities, national parks etc;
- usage of public transport;
- payment of fines, taxes and duties;
- occupation of public housing;
- payment for electricity; and
- deceased estate administration services.

1. During the period covered by this declaration, were **any of your close family members** *(refer to Part A)* **employed** (in a permanent, temporary, full-time or part-time capacity) with ***[insert names of entities entered on first page of Part B]*** in a position equivalent to, or above, Senior Executive Service classification? *N.B. Where an agency is not subject to the SES classifications issued by the Public Sector Commission (PSC), the agency may refer to the SES remuneration rates issued by the PSC in determining the equivalent employment positions that are significant due to their seniority/influential nature within that agency.*	**Yes** (if so, provide more details in Part B2) ☐	**No** ☐

During the period covered by this declaration, were **you or any people or entities identified as your related party** *(refer to Part A)* a **counterparty to any of the following types of transactions/arrangements with** ***[insert names of entities entered on first page of Part B]***?	**Yes** (if so, provide more details in Part B2)	**No**
2. **Purchase/sale/transfer of goods** (finished or unfinished), whether or not a price is charged, where the total value of goods under the individual contract/arrangement is $50,000 or more – regardless of the amount of payments made/received during the period of this declaration	☐	☐
3. **Purchase/sale/transfer of assets** (monetary, physical, non-physical/intellectual property), whether or not a price is charged, where the total value of assets under the individual contract/arrangement is $50,000 or more – regardless of the amount of payments made/received during the period of this declaration	☐	☐
4. **Provision or receipt of services**, whether or not a price is charged, where the total value of services under the individual contract/arrangement is $50,000 or more – regardless of the amount of payments made/received during the period of this declaration (e.g. contractors/consultants)	☐	☐
5. Provision or receipt of **ex gratia payments, gifts, grants/subsidies and/or other benefits** (NB. "Ex gratia" means not legally due under a contract or otherwise)	☐	☐
6. **Lease** of item(s) – either as lessor or lessee - whether or not a price is charged, where the total value over the term of the individual lease is $50,000 or more – regardless of the amount of payments made/received during the period of this declaration	☐	☐
7. Provision or receipt of a **licence(s)** to undertake an activity or use an item, whether or not a price is charged, where the total value of the licence(s) is $50,000 or more – regardless of the amount of payments made/received during the period of this declaration	☐	☐
8. **Provision or receipt of financial assistance** (e.g. loans, settlement of debts to third parties, waiver of debts, equity contributions etc – in cash and/or in kind)	☐	☐
9. Provision or receipt of **collateral, guarantees or indemnities**	☐	☐
10. Entitlements to **receive interest or obligations to pay interest**	☐	☐
11. **Commitment** to do/provide/receive something in the future, whether or not that is subject to a future uncertain event or circumstances, where the total value under the individual future commitment is $50,000 or more	☐	☐

PART B2 – PROVIDE DETAILS FOR RELATED PARTY TRANSACTIONS IDENTIFIED IN PART B1

Name of related party (include ABN if applicable)	**Connection between you and related party** *Click on the text in the rows below and choose from the drop down list supplied, if completing this Part B2 using Microsoft Word (refer also to the categories of relationships listed in Appendix 1 in separate guidance document)* *Please copy more blank rows including drop-down boxes, or attach separate sheet, if insufficient space*	**Queensland Government entity that is party to transaction**	**Details of transaction / arrangement (including the category in Part B1 this relates to)**	**Terms/conditions etc* #**	**Total GST inclusive amount of transactions during period of declaration (regardless of total value of entire contract/ arrangement)#**
EXAMPLE ONLY to guide completion: *XYZ Pty Ltd ABN: xx xxx xxx xxx*	Entity controlled / jointly controlled by child of my spouse/domestic partner	*Department of ABC*	*Provision of consultancy services for corporate review (category 4)*	• *Tender submitted in response to public advertisement* • *Cash consideration* • *Amounts receivable/payable not secured*	*$9,900*
	Select relationship to you				
	Select relationship to you				
	Select relationship to you				
	Select relationship to you				
	Select relationship to you				
	Select relationship to you				
	Select relationship to you				

**** For terms/conditions, please state:***

- whether or not the transaction / arrangement resulted from a public/open tender/advertisement process
- whether any consideration was provided/received and, if so, the nature of consideration (e.g. transfer of cash, transfer of physical asset etc)
- whether outstanding payables/receivables are secured by, or subject to, a guarantee

 # Where transaction is employment of a close family member in a position equivalent to, or above, Senior Executive Service classification, please state:

- position title or description of role as "terms/conditions"
- position classification level and paypoint (as applicable). If more practicable, that information can be declared instead of total remuneration

Key Management Person's certification

I, (print name below)

____,

(insert position title below)

____

1. declare that I have carefully read and understood this Part B and the Appendices in the separate guidance document;
2. declare that, to my knowledge, the information provided in this Part B is accurate and complete;
3. declare that where I have provided information about a transaction of a related party, I have advised that related party that I have declared information in respect of that transaction, the purposes for which that information will be used, and who may review that information (as per the below privacy statement); and
4. give permission for the disclosure of the information provided in this declaration to the relevant entities, as outlined in the below privacy statement.

Signed:

____

Date: _____________/______________/_____________

Privacy Statement – The main purpose of the collection of information via this Part B is to assist in the preparation of financial statements in accordance with Australian Accounting Standard AASB 124 *Related Party Disclosures*. The collection of personal information on this Part B is authorised by the *Financial Accountability Act 2009*.

Information collected via this Part B will be used, and may be disclosed, for the purposes of preparing disclosures to be included in published financial statements of **[*insert name of relevant reporting entity*]**. Those financial statements will be published in the entity's annual report, as required by law. Such disclosures, if significant at a Whole-of-Government level, may also be included in the Queensland Government's published Report on State Finances.

Information collected via this Part B will be disclosed to **[*insert names of entities that may be provided with copies of completed Part B*]**, and potentially officers of Queensland Treasury, as part of the process of preparing disclosures to be included in published financial statements. The information collected via this Part B will also be provided to officers from the Queensland Audit Office and/or other authorised auditors under the *Auditor-General Act 2009* for the purposes of auditing the financial statements. The Queensland Auditor-General may disclose certain information collected via this Part B to the Crime and Corruption Commission, as permitted by the *Auditor-General Act 2009*. The personal information collected via this Part B will not be disclosed to third parties, other than those mentioned above, unless with consent or as authorised or required by law.

FRR 5C Budgetary Reporting Disclosures

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.

TABLE OF CONTENTS

5C.1 APPLICATION OF BUDGETARY REPORTING REQUIREMENTS 2
5C.2 PRESENTATION OF ORIGINAL BUDGET INFORMATION 4
5C.3 USE OF ALTERNATE BUDGETS TO ORIGINAL BUDGET 5
5C.4 EXPLANATION AND DISCLOSURE OF BUDGET VARIANCES 8

5C.1 APPLICATION OF BUDGETARY REPORTING REQUIREMENTS

REFERENCES

- AASB 1055 *Budgetary Reporting*

POLICY

- **An agency is required to comply with AASB 1055 and this policy if:**
  - **budgeted financial statements in respect of the agency were included in a Service Delivery Statement (SDS) as part of the annual State Budget papers for that financial year; or**
  - **the agency was established by a reallocation of functions from another agency subsequent to the last SDS, and budgeted financial statements for the new agency will be included in future SDSs.**
- **If an agency has been established subsequent to the SDS for that financial year, but not by a reallocation of functions from another agency, it is out-of-scope of the application of AASB 1055 and this policy for that financial year only (as no budgeted statements would have been tabled in Parliament in respect of that agency).**
- **Where an agency controls other separate reporting entities (that are <u>not</u> included in the SDS budgeted figures for the agency), AASB 1055 and this policy only apply to the department or statutory body reporting entity for which budgeted financial statements are (or will be) included in an SDS (i.e. the variance analysis is to be displayed at one level only, according to the reporting entity used for general purpose financial statements where budgeted financial statements for the same reporting entity are included in the SDS).**

APPLICATION GUIDANCE

AASB 1055 and this policy only apply where general purpose financial statements are prepared for a particular reporting period. Therefore, where a new agency has been allowed to defer the preparation of its first financial statements under s.40 of the FPMS, AASB 1055 and this policy only apply as from that agency's first general purpose financial statements. Where an agency has been abolished, AASB 1055 and this policy apply to the final financial statements of that agency.

Tier 2 Statutory Bodies

Statutory bodies eligible to adopt Tier 2 (Reduced Disclosure) Requirements are those that do not have their financial information consolidated into whole-of-Government financial statements, and generally do not have budgeted financial statements included in the SDS. For that reason, they are effectively outside the scope of AASB 1055. However, in the rare circumstances that such a statutory body has presented its original budget to Parliament for the financial year (outside the State Budget process), it would need to comply with the requirements of AASB 1055 and this policy.

Requirements do not apply to any part of an agency that is not itself a reporting entity.

For some agencies, budgeted financial statements are included in the SDS for parts of the agency (e.g. commercialised business units) that are not reporting entities – refer to FRR 2A Basis of Financial Statement Preparation for the reporting requirements for Commercialised Business Units (CBUs) and Shared Service Providers (SSPs). As with all accounting standards, AASB 1055 only applies to reporting entities. Therefore, AASB 1055 and this policy do not apply to any part of an agency that is not itself a reporting entity.

In certain SDSs, budgeted financial statements are included for different levels of aggregation (i.e. aggregated on a different basis to reporting entities used for general purpose financial statements). In such cases, the budgeted financial statements to be used for the purposes of AASB 1055 and this policy are those that are aggregated on the same basis as the reporting entity used for the agency's general purpose financial statements – these are generally identified in the SDS as "Reporting Entity" budgeted financial statements.

Where the SDS 'Reporting Entity' budgeted financial statements do not include all of the agency's controlled entities included in audited general purpose financial statements, AASB 1055 and this policy only apply to those controlled entities included (i.e. consolidated) in the agency's SDS 'Reporting Entity' budgeted financial statements.

Where an agency presents its administered items within the notes to its financial statements (consistent with the illustration in the Sunshine Department Illustrative Financial Statements), it is acceptable for the budget versus actual comparison for the administered items to also be presented in the same format.

5C.2 PRESENTATION OF ORIGINAL BUDGET INFORMATION

REFERENCES

- AASB 1055 *Budgetary Reporting*

POLICY

- **Agencies required to comply with AASB 1055 and this policy must present the original budgeted figures from the SDS for that financial year for the same reporting entity (subject to the below exceptions re subsequent machinery-of-Government (moG) changes and new/abolished agencies).**

- **Subject to paragraph 6(e) of AASB 1055, the budgeted figures to be displayed for the agency, along with a comparison to actual results and explanations of major variances, are those in the SDS:**

  - **Controlled Income Statement;**

  - **Controlled Balance Sheet (in respect of equity, agencies must display the variance analysis at the level of <u>total equity only</u>); and**

  - **Controlled Cash Flow Statement.**

- **Subject to paragraph 7(a) of AASB 1055, the budgeted figures to be displayed for the agency, along with a comparison to actual results and explanations of major variances, are those in the SDS:**

  - **Administered Income Statement; and**

  - **Administered Balance Sheet (however, agencies are not to include a variance analysis for administered equity).**

APPLICATION GUIDANCE

Agencies may elect to present the original budgeted figures required by AASB 1055 and this policy either on the face of the main financial statements or within the notes.

5C.3 USE OF ALTERNATE BUDGETS TO ORIGINAL BUDGET

REFERENCES

- AASB 1055 *Budgetary Reporting*

POLICY

- **Where an agency has been established by a reallocation of functions from another agency subsequent to the SDS for that financial year, the figures in the SDS column headed "Adjusted Budget" in the following year's SDS must be used.**

- **Where a department has been otherwise affected by a moG change since publication of the SDS for that financial year but continues to exist (with or without being renamed), the figures in the SDS column headed "Adjusted Budget" in the following year's SDS must be used instead of the original SDS budget figures.**

- **Where an agency is abolished, original SDS budget figures must be used for the full financial year (i.e. unadjusted with no allocation) in the final financial statements of the abolished agency.**

- **Subject to the above exceptions for subsequent moG changes and new/abolished agencies, for the variance analysis itself:**

  - **agencies are NOT to use revised budget figures in place of original budget figures (paragraph 9 of AASB 1055 explains the meaning of "original budget"); and**

  - **agencies are NOT to present revised budget figures in addition to original budget figures.**

APPLICATION GUIDANCE

For the purposes of this policy, a machinery-of-Government change means a reallocation of Government functions between departments that is in accordance with a specific Departmental Arrangements Notice.

Substitution of original budget figures with adjusted budget in limited circumstances

Treasury acknowledges that AASB 1055 requires budgetary reporting to be based on comparisons to original budget figures. However, where a moG change has impacted on an agency original budgeted figures in that SDS generally no longer serve as a useful basis to compare to actual results (as acknowledged in paragraph BC16 of AASB 1055). Therefore, on the grounds of qualitative materiality, this policy requires replacement of original budget figures with "Adjusted Budget" figures in certain circumstances – refer to the above policies. In those circumstances, the basis of the budget figures disclosed should be explained by footnote to the "Adjusted Budget" columns.

How a new agency is established determines the correct budget figures to use

Similarly, where a new agency is established during the financial year as a result of a reallocation of functions from another agency, and the new agency is included in the next SDS, its budgeted statements in that SDS will display figures in the "Adjusted Budget" column (in respect of the functions that have been reallocated during the year). Such "Adjusted Budget" figures effectively represent original budget figures for such agencies.

New agencies may be out-of-scope of AASB 1055 under this policy

Any new agencies established during the financial year - but not from a reallocation of functions from another agency - and included in the next SDS will not display figures in the "Adjusted Budget" column in their budgeted financial statements. In those circumstances, for the first financial year only, such agencies are effectively out-of-scope of AASB 1055 and this policy.

For the application of this policy, figures in the SDS budgeted financial statements reported as "Adjusted Budget" are not to be impacted by non-moG adjustments. It is acknowledged that Adjusted Budget figures may be difficult to compute, particularly for the Statement of Financial Position and Statement of Cash Flows, where a moG change occurs part way through a financial year. In these circumstances, the Adjusted Budget figures should be calculated on a "best endeavours" basis.

For an abolished agency, this policy requires that the original SDS budgeted income statement, balance sheet and statement of cash flows is to be presented **unadjusted** in the final financial statements, covering the full financial year as set down in the SDS. This reflects the only pre-abolition published budget tabled in parliament. Abolished agencies are still required by FRR 5C.4 to provide an explanation of variances between their actual financial results and the budgeted financial statements – however the extent of these explanations will depend on the abolition circumstances. Abolished agencies should refer to the policy and guidance in FRR 5C.4

As required by this policy, where functions of an abolished agency are transferred to another agency, the recipient agency will include the budgetary impact of the transferred function within its "Adjusted Budget" in the following year's SDS.

Most of the policies in this FRR 5C assume the usual timeframe of the SDS being published in June each year (i.e. prior to reporting date). If the timing of the annual State Budget changes in any year (e.g. if the SDS will not be published prior to the audited financial statements being certified by management), Treasury will assess the circumstances and develop an alternative approach to deal with those specific circumstances, if necessary. The following table illustrates the type of note explanations that agencies may consider using in these situations (alongside the format illustrated in the Sunshine Department illustrative financial statements.)

Scenario 1 - New agency established by reallocation of functions from another agency: The department was created on [*Notice commencement date*] 20xx to assume certain responsibilities previously undertaken by the Department of ABC as outlined in [*insert note number here*]. These figures represent the budgeted figures for 20xx-xy, as published in the latest Service Delivery Statement tabled in Parliament.
Scenario 2 – Continuing department impacted by moG change: On [*Notice commencement date*] 20xx, certain responsibilities were transferred to the department from the Department of ABC and the Department of UVW. Details of the transfer are outlined in [insert note number here]. As required by Queensland Treasury policy under such circumstances, the budget figures used in this comparison represent the Adjusted Budget figures for the financial year, as published in the latest Service Delivery Statement tabled in Parliament. The original budget figures in the previous Service Delivery Statement no longer serve as a useful basis to compare to the department's actual results.
Scenario 3 - Agency abolished: On [*Notice commencement date*], certain responsibilities were transferred to the Department of UVW following abolition of the [department/statutory body] as outlined in [insert note number here]. As required by Queensland Treasury policy under such circumstances, the budget figures used in these final financial statements reflect the unadjusted, original budget for the full financial year as published in the latest Service Delivery Statement tabled in Parliament. The explanation of major variances between year-to-date actuals and original budget covers the abolition of the [department/statutory body] and other materially identifiable variations not connected to the abolition. Refer to note xx for information about abolition of the [department/statutory body] and the assets and liabilities transferred to Department of UVW.

5C.4 EXPLANATION AND DISCLOSURE OF BUDGET VARIANCES

REFERENCES

- AASB 1055 *Budgetary Reporting*

POLICY

- **The comparison between budgeted financial statements and actual results is to be presented at the level of <u>financial statement line items</u>, setting out the following information:**
  - **original budgeted figures as published in the SDS (subject to the exceptions for moG changes and newly established agencies described above);**
  - **actual results; and**
  - **the dollar amount of any budget to actual variance.**
- **For the purpose of applying AASB 1055 and this policy, explanations of major variances are not required for any <u>immaterial line items</u> in the audited financial statements. Materiality for this purpose is to be assessed in accordance with FRR 2B Materiality.**
- **Subject to the line item's materiality, explanations must be provided, at a minimum, for the following variances that are larger than 5% of the budgeted figure for:**
  - **employee expenses (Statement of Comprehensive Income);**
  - **supplies and services (Statement of Comprehensive Income); payments for property, plant & equipment (Statement of Cash Flows); and**
  - **for all other material line items - variances larger than 10% of the budgeted figure.**

- **Explanations of major variances must include the following information:**
  - **the specific transaction(s) and/or balance(s) that the variance relates to (including quantification, where possible); and**
  - **the underlying cause of the variance.**
- **For an abolished agency's final financial statements, explanations of major variances must include materially identifiable variances that are due to a reason other than the abolishment of the agency.**
- **Agencies are not to include corresponding information for the comparative year.**

APPLICATION GUIDANCE

Variance analysis and explanations of major variances

Consistent with paragraphs 6 and 7 of AASB 1055, for the variance analysis the line items of the budgeted financial statements (from the SDS) need to be aligned with the classification of line items of the corresponding actual financial statements.

Where there is a classification difference, agencies must reclassify the budgeted figures accordingly. Examples of line items for which this would be necessary include losses on sale/revaluation/impairment of assets (for the Statement of Comprehensive Income) and the various GST cash flow line items (for the Statement of Cash Flows).

Where a major variance between a budgeted figure amount and the corresponding actual is attributable to more than one reason, agencies are to exercise judgement in identifying and disclosing those reasons (both positive and negative) that most substantively explain the overall major variance.

Although there is to be no substitution of original budget figures (subject to the exceptions for subsequent moG changes or newly established agencies), revised budget figures may be appropriate to refer to as part of narrative explanations of major variances between the original budgeted figures and actual results.

Abolished Agencies

For agencies abolished part way through a financial year, allocating a portion of the original SDS budget to compare to the actual year-to-date results is not practical to provide meaningful explanations of individual variances at the line item level. Consequently, this policy requires abolished agencies to present a comparison of their actual year to date results with the original, unadjusted SDS presented to parliament.

The intent of the budget to actual variance explanations for an abolished agency is that the explanations disclosed convey meaningful information in the context of the abolition. While abolition will ordinarily be the substantive reason used by abolished agencies to explain variances between original budget and audited actuals, the explanation of variances would also include those that are obviously due to a reason(s) other than the abolition. The following circumstances are examples of such non-abolition variances:

- where actual year-to-date revenue and/or expenditure incurred for the part-year already exceeds the full year original budgeted item at abolition date.

- Where the proportion of actual expenditure for a line item relative to its original budget is significantly more or less than the proportion of actual to budgeted results for other line items. For example, an agency might be abolished half-way through a financial year. If 80% or more of the budget for supplies and services expenditure was already expended compared to other line items that were 40-50% expended against original budgeted amounts, it would be evident that the actual to budget variance for supplies and services was caused by factor(s) other than the abolishment of the agency.

- A significant revaluation of property, plant and equipment occurred post original budget.

FRR 5D Service Concession Arrangements and Other Public-Private Partnerships

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.

TABLE OF CONTENTS

5D.1 PUBLIC-PRIVATE PARTNERSHIPS 2
5D.2 SCOPE OF AASB 1059 4
5D.3 ACCOUNTING FOR SERVICE CONCESSION ARRANGEMENTS UNDER AASB 1059 ..11
5D.4 ACCOUNTING FOR PUBLIC-PRIVATE PARTNERSHIPS OUTSIDE THE SCOPE OF AASB 1059 12
5D.5 DISCLOSURES FOR PUBLIC-PRIVATE PARTNERSHIPS 18

5D.1 PUBLIC-PRIVATE PARTNERSHIPS

REFERENCES

- AASB 1059 *Service Concession Arrangements: Grantors*
- Queensland Treasury's Project Assessment Framework – *Queensland PPP supporting guidelines*

APPLICATION GUIDANCE

The term "public-private partnership" or "PPP" when used in this FRR means all projects and arrangements to which the *National PPP Policies and Guidelines* and the *Project Assessment Framework: Queensland PPP Supporting Guidelines* apply, or would apply if the projects were being entered into in the current financial year.

In public-private partnerships, the State (the grantor) enters into arrangements with private sector entities (the proponents/operators) to deliver to the public major economic and social assets/facilities and related services.

The Commonwealth Government's *National PPP Policies and Guidelines*, which are available at https://www.infrastructure.gov.au/infrastructure-transport-vehicles/infrastructure-investment-project-delivery/national-guidelines-infrastructure-project-delivery, set out the key features of PPPs – refer section 3 of the policy framework and sections 2.1 and 2.2 of the guidelines.

The Queensland Government's *Project Assessment Framework: Queensland PPP Supporting Guidelines* are available on Treasury's Project Assessment Framework web site at https://www.treasury.qld.gov.au/programs-and-policies/project-assessment-framework/

PPP arrangements generally fall into two broad categories – economic infrastructure arrangements or social infrastructure arrangements.

Economic infrastructure arrangements

Economic infrastructure arrangements involve the delivery and operation of economic infrastructure whereby the third-party users (i.e. end users) pay for use of the infrastructure asset directly to the operator (often within a regulated payment framework) over the life of the contract. This is sometimes referred to as a 'demand-risk (i.e. patronage) transfer payment model'.

The typical characteristics of these arrangements generally include the operator being compensated for the upgrade, construction or acquisition of infrastructure assets by the grantor granting the operator the right to earn revenue from third-party users of the asset.

The grantor may also be required to pay an upfront payment in order to make the project more commercially attractive to a potential operator (e.g. a 'gap or subsidy' payment) or to compensate the operator for contract works undertaken on State owned assets (e.g. returned works).

Other than an upfront payment, the grantor will generally have no additional rights (other than the right to the residual interest in the infrastructure asset) or other obligations in relation to the infrastructure asset. In the event of a default by the operator or extended force majeure (i.e. where neither party is at fault), these types of service concession arrangements have generally been structured in such a way that if the asset was handed back to the State early, the State would have no obligation to compensate the operator.

Examples of PPPs that involve economic infrastructure assets include water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports and telecommunication networks.

Social infrastructure arrangements

Social infrastructure arrangements involve the delivery and operation of social infrastructure whereby the grantor pays for the third-party (i.e. community) use of the infrastructure asset through regular service payments to the operator over the life of the contract. Generally, the grantor pays an ongoing service payment to the operator regardless of the level of patronage of the social infrastructure asset as long as the asset is 'available for use'. This is sometimes referred to an 'availability payment model'.

The typical characteristics of Social Infrastructure arrangements involve the grantor paying regular service payments to the operator. Such payments generally include a capital component – compensation for the upgrade, construction or acquisition of infrastructure assets – and an operating component that compensates the operator to operate and maintain the infrastructure asset. In the event of a default by the operator or extended force majeure (i.e. where neither party is at fault), these types of service concession arrangements have generally been structured in such a way that if the asset was handed back to the State early, the State would have an obligation to compensate the operator.

Examples of service concession arrangements that involve social infrastructure include hospitals, TAFEs, schools, public transport and correctional facilities.

Accounting considerations for PPPs

PPPs are often complex arrangements that require detailed analysis before arriving at an appropriate accounting position.

AASB 1059 *Service Concession Arrangements: Grantors* applies to 'service concession arrangements', which are specific arrangements that meet the scope criteria of that standard. However, not all PPPs are service concession arrangements under AASB 1059. Other accounting standards (such as AASB 116 or AASB 16) may apply to those PPPs outside the scope of AASB 1059. Agencies who determine a PPP arrangement falls outside AASB 1059 must then consider the appropriate accounting for the PPP under other applicable standards.

The remainder of FRR 5D addresses the following issues:

- FRR 5D.2 examines the scope of AASB 1059 and contains guidance to help agencies assess whether an arrangement is a service concession arrangement.
- FRR 5D.3 contains guidance for accounting for service concession arrangements under AASB 1059.
- FRR 5D.4 contains guidance to help agencies decide on the most appropriate accounting treatment for PPP arrangements that fall outside of AASB 1059.
- FRR 5D.5 sets out Treasury's disclosure requirements for all PPPs, irrespective of whether the arrangements are in scope of AASB 1059.

5D.2 SCOPE OF AASB 1059

REFERENCES

- AASB 1059 *Service Concession Arrangements: Grantors*

POLICY

- **Service concession arrangements between Queensland public sector entities that are consolidated into Whole-of-Government are considered rare. Before applying AASB 1059 to such arrangements, agencies are first required to consult with Treasury regarding the application of the standard and Whole-of-Government implications.**

APPLICATION GUIDANCE

To be a service concession arrangement in scope of AASB 1059, a public-private partnership (PPP) must meet certain criteria as summarised below.

1. The operator must be providing public services related to the service concession asset on behalf of a grantor. (Para 2(a), B4–B9)

2. The operator must be managing at least some of the services under its own discretion, rather than at the direction of the grantor. (Para 2(b), B10)

3. The grantor must control or regulate: (Para 5(a), B15–B27)
   a) what services the operator must provide with the asset,
   b) to whom it must provide the services, and
   c) at what price

4. The grantor controls any significant residual interest in the asset at the end of the term of the arrangement. (Para 5(b), 6, B32–B36)

Factors that are <u>not included</u> in the AASB 1059 scope assessment include who acquired, constructed or paid for the asset (the asset can be constructed/financed by the operator or it can be an existing asset of the grantor), or who legally owns the asset *during* the period of the arrangement (the asset can be owned by the grantor or the operator during this period).

Where an asset has physically distinct portions that are used for different purposes, agencies should assess each portion individually as to whether there is a service concession arrangement, when the difference in accounting treatment is expected to be material.

The following guidance is provided to assist agencies in deciding whether an arrangement is within the scope of AASB 1059. See also AASB 1059 Examples 1–5 for illustrative application of the standard's scope requirements.

<u>1. Is the operator providing public services related to the service concession asset on behalf of the grantor?</u>

<u>What is a public service?</u>
Public service is not defined in AASB 1059 or other accounting standard, although AASB 1059 paragraph B5 does provide examples of service concession assets. A public service would typically be a service that a government provides and is accessible to members of the community within its

jurisdiction, even if not everyone in the public uses the service. Usually, if the government is paying for a service to be delivered, it will likely be a public service.

Agency judgment is required in some cases where the government is not paying anything for the service.

Assets that also provide ancillary services

Some arrangements may involve a single asset that provides multiple services. In such circumstances, a judgement will be required as to the nature and relative significance of each separate component and services provided to determine if the asset provides public services.

For example, a courthouse building provides multiple services, such as courts, administrative offices and other associated services. The services provided by the administrative offices may be unrelated to the court services and therefore considered ancillary if they are insignificant to the arrangement as a whole, and in that case would not affect the assessment that the building provides public services. However, if the unrelated administrative services were significant to the arrangement as a whole, the courthouse building might be assessed as not providing public services.

Similarly, a hospital might provide multiple services such as normal surgical/medical health care services and other associated services (e.g. florists, newsagencies, cafeteria). The associated services are unrelated to the surgical/medical services and would most likely be insignificant ancillary services when compared to the arrangement as a whole. In this case, the associated services would not affect the assessment that the hospital provides public services.

Secondary assets

AASB 1059 para B7 discusses situations where ‘secondary assets’ constructed as part of a service concession arrangement for a ‘primary asset’ (for example, a car park for a hospital) are also regarded as providing public services.

In situations where there is no service concession arrangement for the primary asset (e.g. the hospital itself is not in a service concession arrangement), or where the secondary asset is in a separate arrangement to that of the primary asset (e.g. the car park is constructed and operated by a different party), the secondary asset would not be regarded as providing public services under para B7. Nevertheless, agencies should still consider whether the secondary asset provides public services by itself as a standalone primary asset, and if it does it can still meet the ‘public service’ criteria.

“On behalf of the grantor”

In a service concession arrangement, the operator must be providing the public services related to the asset *on behalf of* the grantor. Typically, in a PPP arrangement, the public sector grantor is assigned responsibility by the government for delivery of public services, and the private sector operator uses an asset to provide those public services on the grantor’s behalf.

Arrangements may exist between Queensland Government agencies that have features similar to those of service concession arrangements with external-to-government operators. By way of example, one agency may have legal or designated ownership of a particular asset while a second agency is responsible for delivering public services using that asset.

The second agency would be assigned the responsibility for operating the asset and delivering public services by legislative mandate or Cabinet/Ministerial direction, even though ownership continues to remain with the first agency. In such cases, the second agency will often be providing the public services to achieve its own service delivery objectives or mandate - not necessarily *on behalf of* the agency that owns the asset. Careful examination of the facts and circumstances is required before concluding such arrangements

For this reason, service concession arrangements between agencies are expected to be rare, and agencies are required to consult with Queensland Treasury’s whole-of-Government reporting team before concluding that an arrangement between two Queensland Government agencies constitutes a service concession arrangement under AASB 1059.

Other considerations

Not in paragraph 2(a) but present in the definition of a service concession arrangement is that the arrangement must be for a ‘specified period of time’. A permanent transfer of service provision is therefore not a service concession arrangement, it may instead be a sale as illustrated in AASB 1059 Example 5(a).

As outlined in para B8 of AASB 1059, where the services provided by an asset are used wholly internally by the agency to assist the agency in delivering public services, but the asset is managed by an external party, this will not meet the definition of a service concession arrangement. Such circumstances are more indicative of an outsourcing arrangement or a lease and agencies should consider whether other Accounting Standards apply in such circumstances.

2. Is the operator managing at least some of the services under its own discretion, rather than at the direction of the grantor?

This aspect of the scope criteria requires that the operator has management responsibility (e.g. operational decision making) for some of the services provided by the asset **and** those services managed by the operator contribute significantly to the public services provided by the asset (see AASB 1059 para B10).

When the grantor provides the operator specific operational instructions or directions for the provision of services, the operator does not have discretion or management responsibility, and the arrangement would be a service outsourcing contract from the grantor's perspective. Significant judgement is often required when deciding whether the services managed by the operator contribute significantly to the public services provided by the asset. The examples below illustrate the key principles in paragraph B10.

Example	Assessment	Conclusion
Operator constructs school buildings and provides, under its own discretion, facilities management, cleaning and security services.	Public services provided by the school are primarily education services. The operator's maintenance services do not represent a significant component of the public services provided by the school. Instead the maintenance services represent a service outsourcing arrangement to enable the grantor to provide public services (education) through the school.	The arrangements fails the criteria in 2(b) / B10, and is not within scope of AASB 1059. The agency would instead account for this arrangement under other accounting standards, such as AASB 116 or AASB 16.
Operator constructs hospital building and provides, under its own discretion, facilities management, cleaning and security services, along with employment and rostering of hospital staff.	Public services provided by the hospital are primarily health care services. The operator's employment and rostering of hospital staff is likely a sufficient indicator that the operator is managing at least some of the public services provided by the hospital.	The arrangement meets this scope criteria and is likely a service concession arrangement under AASB 1059 (provided other criteria also met)
Operator builds a toll road, collects tolls, and provides road maintenance services under its own discretion.	A road provides public services (i.e. transport) largely by itself as long as it is properly maintained. Therefore, the operator's maintenance services contribute significantly to the public services provided by the road.	The arrangement meets this scope criteria and is likely a service concession arrangement under AASB 1059 (provided other criteria also met)

3. Does the grantor control or regulate what services the operator must provide with the asset, to whom, and at what price?

For the three criteria in this section, the power to regulate includes regulation imposed on the operator by a third party. Where third party regulation exists, the PPP agreement need not specifically refer to such regulation as it is implied in the arrangement, and the grantor also need not control or be related to the regulator.

3(a) What services the operator must provide with the asset

To meet this criteria, the agreement (or regulation) should state what type/s of services the operator must provide with the asset, and specify a minimum service level in terms of quantity or availability of the services provided. For example, a public hospital PPP may require that the operator provide specified health services to public patients and the hospital be open at all times barring force majeure situations.

Some considerations are outline in the table below.

Considerations	Examples of indicators that the arrangement **IS** a service concession arrangement	Examples of indicators that the arrangement **IS NOT** a service concession arrangement
Does the PPP agreement specify the types of services and a minimum level of service?	The agreement specifies the services to be delivered and a minimum level of service.	The agreement only sets out a high-level objective (e.g. reduce youth crime) without specifying the services to be delivered, and/or the operator has wide discretion as to the quantity or availability of services provided.
Is the operator permitted to temporarily cease the provision of public services, and if so, under what circumstances?	The operator must obtain the grantor's approval before it can temporarily cease the provision of public services. The agreement can allow for cessation of services in certain situations that do not detract from the grantor's control, e.g. in force majeure situations or during repairs and upgrades to the asset.	The operator has discretion over the times when the asset operates. For example, the operator can choose to cease operation of the asset (and provision of public services) when demand is low and the income earned does not justify the operating costs.

Considerations	Examples of indicators that the arrangement **IS** a service concession arrangement	Examples of indicators that the arrangement **IS NOT** a service concession arrangement
Is the operator able to use the asset for alternate purposes or to provide additional services that are not specified in the agreement?	The operator must obtain the grantor's approval to use the asset for alternate purposes.	The operator may use the asset for alternate purposes or to provide additional services that may or may not be public services.

3(b) To whom the operator must provide the services

Usually in a service concession arrangement, the agreement requires that the operator must provide the public services to the general public (i.e. anyone who wants to use the service) or a subset of the public. The grantor may restrict certain types of users from accessing the service, for example – no tractors or cyclists on a toll highway. The restrictions on the types of users can also be imposed by a third-party regulator.

Where the operator charges users a fee or toll for use of a service, the fact that the operator is 'limiting' its provision of services to only those users who pay does not, by itself, cause the arrangement to fail this criteria.

3(c) At what price the services must be provided

Control over pricing include terms that set an initial price and place a limit on future price increases (e.g. a fixed percentage or CPI), or require all price increases to be approved by the grantor. The price may also be set at zero.

The grantor's control over pricing must be **substantive**. If in doubt, agencies should consider a situation where the operator raises prices beyond what is allowed in the agreement, or seeks a price increase that the grantor believes is too high. Does the grantor have sufficient power to restrict or limit the operator in these situations? Are there processes in place that will allow the grantor to achieve this control?

Additionally, pricing for public services can often be regulated by a third party, which would generally be sufficient to satisfy this scope criteria for the grantor.

4. Does the grantor control any significant residual interest in the asset at the end of the term of the arrangement?

This criterion is ordinarily satisfied by ownership of the asset being transferred to, or remaining with, the grantor at the end of the arrangement. An option for the grantor to purchase the asset at the end of the arrangement would not meet this criterion unless the purchase price is insignificant compared to the fair value of the asset at that time (e.g. $1 purchase option).

This criterion is not relevant when an asset is used in a PPP for all or a major part of its economic life, because there will be no significant residual remaining at the end of the arrangement.

Where the term of the PPP consists of an initial period plus one or more extension options that can be exercised by the agency, for the purposes of determining the 'end of term of the arrangement' for para 5(b), the agency should assess whether it is probable that optional extension period/s will be exercised based on expectations of future demand for the public service provided by the asset. The probable or most likely outcome should then be used as the term of the arrangement for the AASB 1059 scope assessment.

5D.3 ACCOUNTING FOR SERVICE CONCESSION ARRANGEMENTS UNDER AASB 1059

REFERENCES

- AASB 1059 *Service Concession Arrangements: Grantors*

APPLICATION GUIDANCE

Lifecycle payments and AASB 1059 arrangements

Lifecycle payments refer to payments agreed upfront for renewals and replacements that are undertaken by the operator in a PPP throughout the life of the arrangement. Where the PPP arrangement falls within the scope of AASB 1059, the examples in the standard illustrate how to account for lifecycle payments.

1. Financial liability model (AASB 1059 Example 6)

Future replacements are incorporated into the calculation of the implicit interest rate at commencement of the arrangement. This results in a lower discount rate and less interest expense being incurred over the life of the arrangement.

When the replacement happens, the service concession asset and financial liability are both increased by the original estimate of the fair value (CRC) of the replacement.

2. Grant of Rights to Operator (GORTO) model (AASB 1059 Example 7)

Future replacements are not incorporated into initial revenue recognition calculations (this differs from IPSAS 32 Example 2). Under AASB 1059, each replacement is treated like a new SCA that lasts for the remaining term of the arrangement. As each replacement occurs, the service concession asset and unearned revenue liability are increased by the fair value (CRC) of the replacement. This liability is then recognised as revenue over the remaining term of the arrangement, even if the replacement component's useful life is different. The amount of revenue recognised each year increases with each subsequent replacement, thus resulting in more revenue being recognised towards the end of the PPP.

5D.4 ACCOUNTING FOR PUBLIC-PRIVATE PARTNERSHIPS OUTSIDE THE SCOPE OF AASB 1059

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- AASB 16 *Leases*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 116 *Property, Plant and Equipment*
- AASB 1059 *Service Concession Arrangements: Grantors*

APPLICATION GUIDANCE

PPPs can be structured in various ways. It is possible some PPP arrangements will not meet the scope criteria of AASB 1059. For example, the asset may not be providing a public service (but may meet some or all of the other criteria of AASB 1059). In other situations, the proponent may only be managing maintenance activities that do not contribute significantly to the public services provided by the asset.

For PPP arrangements that fall out-of-scope of AASB 1059, the agency must determine the most appropriate way to account for the PPP that reflects the substance of the arrangement. Agencies encountering such situations should prepare and discuss their accounting position papers findings with QAO, noting that in such situations, the arrangement may be accounted for as either property, plant and equipment, a right-of-use asset (lease), or possibly not require on-balance sheet recognition.

In formulating position papers and accounting judgements, agencies may find it helpful to consider the following questions as a minimum:

1. What is the nature of the consideration exchanged - capital payments or user charges?

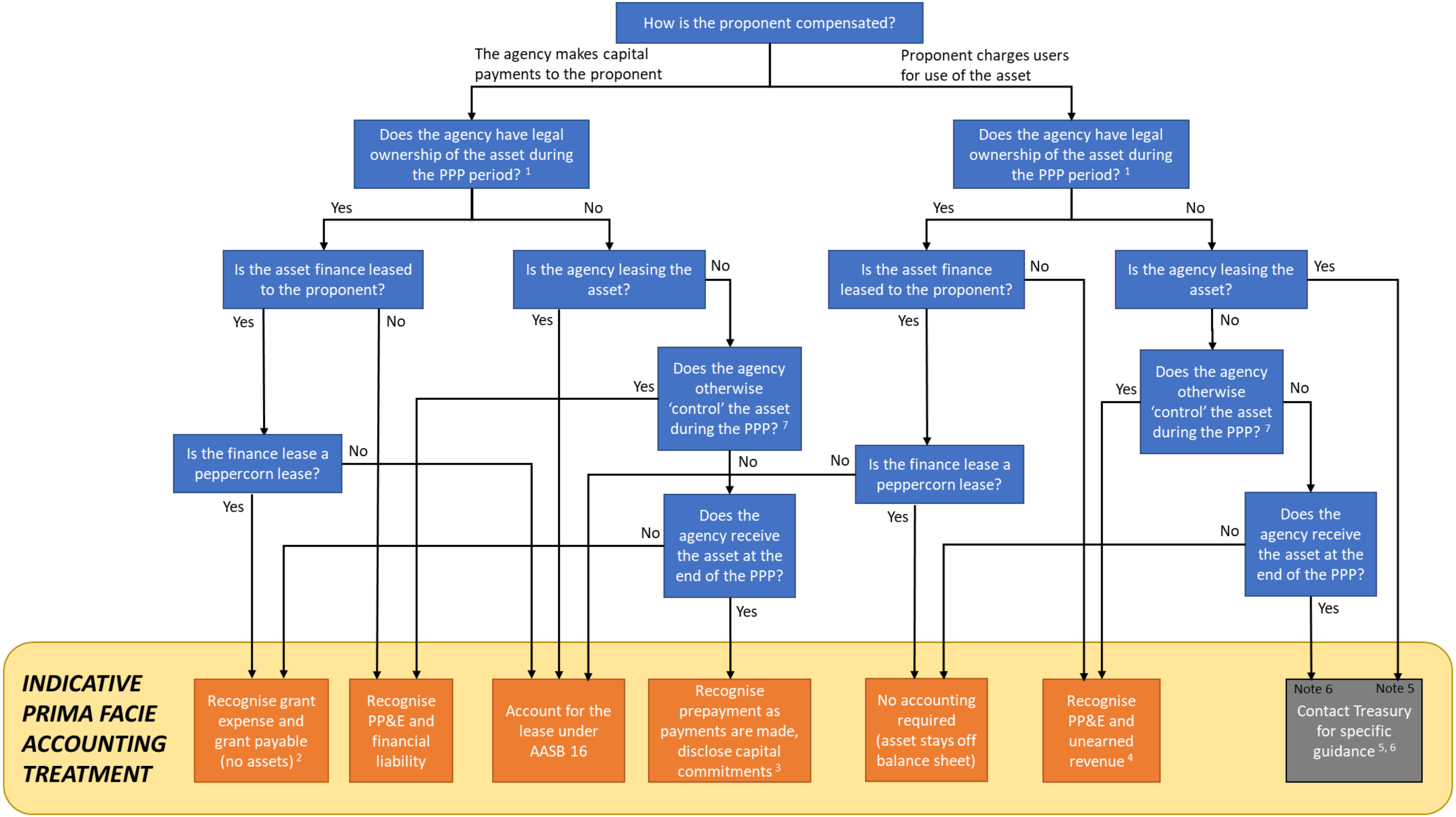
2. Who has legal ownership of the asset?

3. Who has accounting control of the asset?

4. Is there a finance lease of the asset to the proponent or a lease of asset to the agency?

The decision tree on the following page is provided to assist agencies in determining the most appropriate accounting treatment for PPPs outside of AASB 1059. Please note that this decision tree does not cover all possible PPP scenarios, and that hybrid arrangements where the proponent both charges users and receives payments from the grantor may require a combination of accounting treatments. Agencies are encouraged to seek Treasury advice if experiencing difficulties in applying this decision tree to a particular PPP arrangement.

Decision tree –Accounting for PPPs outside the scope of AASB 1059



Notes to the decision tree:

1. Typically, legal ownership of buildings and infrastructure will lie with the owner of the land on which it is constructed. Where an agency believes this is not the case, it must demonstrate sufficient evidence to its auditors that ownership of the building/infrastructure resides with a party other than the landowner.
2. If the agency is paying for the construction of an asset and either (i) never receives the asset; or (ii) is required to lease the asset to the proponent under a peppercorn finance lease arrangement; then it is in substance a grant to the proponent. A grant payable and grant expense should be recognised when the proponent becomes contractually entitled to receive the payments under the terms of the agreement.
3. In this situation, the agency is effective committed to the purchase of a PP&E asset at the end of PPP and is pre-paying for that asset over the PPP period. Capital commitments must be disclosed under AASB 116 para 74(c). A capital prepayment can only be recognised where a significant residual in the asset exists at the end of the PPP, and the prepayment is also subject to annual impairment testing.
4. The unearned revenue here is recognised under an accounting policy developed under AASB 108 para 10-12 in the absence of a specifically applicable accounting standard and in consideration of the accounting requirements for GORTO arrangements in AASB 1059.
5. This scenario is expected to be extremely rare. Where the proponent is charging users for use of the asset, the agency is unlikely to have the right to obtain substantially all of the economic benefits from use of the asset, thus failing the AASB 16 lease identification criteria (para B21-B23). In addition, there may not be any lease payments involved.
6. In these circumstances, because the agency does not control the asset (e.g. buildings) during the PPP arrangement, Queensland Treasury considers the full amount of the asset should not be recognised upfront. Instead, Queensland Treasury's view is that the agency acquires a right to receive the asset at the end of the term, the value of which increases progressively over the term of the arrangement. Accounting for the progressive recognition and measurement of this asset can be complex, and as such, it is recommended that agencies contact Treasury for advice specific to the circumstances of their PPP arrangement.
7. When the agency does not own or lease the asset, it should assess whether it nevertheless still controls the asset by having the power to obtain the future economic benefits or service potential of the asset and to restrict the access of others to those benefits.

Lifecycle payments and arrangements outside AASB 1059

Agencies' treatment of lifecycle payments in PPP arrangements that are outside the scope of AASB 1059 must be consistent with the conceptual framework in respect of any assets or liabilities recognised.

Lifecycle payments attributable to *operating or maintenance activities* should be *expensed as incurred*.

Lifecycle payments attributable to *capital replacements* should be *capitalised* in accordance with the principles set down in accounting standards (e.g. AASB 116) and the NCAPs.

No assets should be recognised at the start of the PPP in relation to future replacements before any lifecycle payments are made.

(i) Time Specific or Clearly Defined Replacement Schedules for Individual Assets or Components
In PPP arrangements that contain clearly defined replacement schedules for specific assets, or components of complex assets, agencies should capitalise the cost of those replacements and depreciate over the remaining useful life of the asset or component as applicable.

Where lifecycle payments relating to material capital replacement payments are made in advance of the clearly defined or actual replacement occurring, Queensland Treasury's preference is this advance payment be recognised as part of capital work-in-progress asset until the future replacement occurs at which time the capital work-in-progress will be transferred to the asset. If it becomes apparent that the agency will not receive all of the replacements embodied in that recognised in prepayments, the advance payment must be written off.

(ii) No Specified Replacement Schedules or Minimum Replacement Specified for Individual Assets or Components
Some PPPs may require the agency to make lifecycle payments in advance of future asset replacements occurring, either as recurring payments or via periodic lump sums, but do not specify a comprehensively detailed replacement schedule or minimum level of replacements to be made.

Notwithstanding this, it is still necessary to make a judgement as to the capital versus operating nature of such lifecycle payments. Agencies are to make an assessment on a case-by-case basis as to what the substance of the lifecycle payments represent and adopt an accounting approach consistent with accounting standards, NCAPs and the conceptual framework.

Ordinarily, it is expected sufficient information will exist for agencies to make a reasonable determination or estimation of the capital and maintenance elements embodied in the PPP's contractual arrangements. This may include the use of budgeted asset management plans, forecast engineering work plans, scheduled maintenance bulletins or estimation reports from the proponent responsible for providing the maintenance / asset replacement services. Queensland Treasury's expectations around in these circumstances are as follows:

- Accounting judgements should consider the use of all available data to attribute (either partially or fully) the lifecycle payments between the capital element, with the balance attributable to maintenance (operating expenses). In certain circumstances, it may be more practical to determine the maintenance element first with the balance attributed to the capital element.

- As part of identifying the capital element, it is expected the timing of replacements for major or material asset components would also be identified where appropriate having regard to the available documentation and information sources as outlined in this section.

- Accounting for the capital component may be similar to the treatment outlined in (i) above if replacements of major or material asset components can be reasonably estimated to occur in particular years. Where this is impractical, the capital component of the lifecycle payment should be capitalised as part of the PPP asset when the payment is made.

- The frequency of comprehensive asset revaluations for the PPP asset will ensure that any timing differences (i.e. between the payment and when any material asset components are replaced) are effectively addressed through the asset revaluation cycle and be reflected in the asset revaluation surplus.

- Between comprehensive asset revaluations, an appropriate accounting judgement around depreciation should reflect the particular circumstances of the capital element and material capital components identified.

- Initial estimates of the allocation between capital and maintenance can be made, then adjusted each year and across the forward estimates, as more certainty around the capital component crystallises.

In some less common circumstances, asset replacements may be largely incidental, relatively minor, and only occur when needed as part of agreed maintenance services – with such replacements effectively inseparable from the maintenance services delivered.

Consequently, identifying what future replacements will ultimately be received in return for the lifecycle payments may be difficult to reliably quantify. Judgement will be required as to whether such lifecycle payments qualify for capitalisation, should be expensed in full or require apportionment between both categories.

5D.5 DISCLOSURES FOR PUBLIC-PRIVATE PARTNERSHIPS

REFERENCES

- AASB 1059 *Service Concession Arrangements: Grantors*

POLICY

- **To meet Queensland Treasury's minimum disclosure objectives for all public-private partnerships, irrespective of whether AASB 1059 Service Concession Arrangements or another Standard applies, agencies shall make the following disclosures for <u>each individually material PPP arrangement</u> in existence during the financial year, and the remaining PPPs in aggregate (including comparatives where applicable):**

  (a) A description of the arrangement including its duration and key features, the name of the other entities in the arrangement, and the value of assets and liabilities involved;

  (b) The impact of the arrangement on revenue and expense line items; and

  (c) A maturity analysis of the arrangement's future contractual cash inflows and outflows separately, on an undiscounted basis, in the following time bands:
  - **within one year**
  - **one to five years**
  - **five to ten years**
  - **later than ten years**

APPLICATION GUIDANCE

To ensure consistency across PPP arrangements, and for whole-of-Government reporting purposes, the disclosures required by FRR 5D.5 apply to all PPP arrangements, whether or not they are service concession arrangements under AASB 1059. The requirements reflect the principle-based disclosure guidelines of paragraph 28 in AASB 1059 for service concession arrangements. Consequently, agencies who make disclosures under AASB 1059 will meet the disclosure requirements of 5D.5. Agencies may refer to FRR 6A for illustrative disclosures.

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