QUEENSLAND TREASURY

2022-23 FINANCIAL REPORTING REQUIREMENTS

FOR QUEENSLAND GOVERNMENT AGENCIES

FRR 3E Distinction Between Grants and Procurement Expenses

INTRODUCTION

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

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

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

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3E.1 SCOPE OF FRR 3E

REFERENCES

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

APPLICATION GUIDANCE

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

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

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

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

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

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

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

3E.2 CLASSIFICATION BETWEEN GRANTS AND PROCUREMENT

REFERENCES

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

POLICY

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

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

APPLICATION GUIDANCE

Distinction between Grants and Procurement

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

Grants

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

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. The recipient of a grant may have been selected on merit against a set of program-specific criteria and may need to comply with certain conditions in return for the grant received.

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

<u>Procurement</u>

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

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

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

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

Assessment of the substance of the transaction

Paramount to the classification of a transaction (either for recurrent/operational, or capital purposes) as either a grant or procurement is understanding the **purpose** and the **characteristics** of the transaction with the other party.

In determining whether a transaction is a grant or procurement, it is necessary that the classification is in accordance with the **substance** and economic reality and not merely the legal form. An agency may enter into an agreement that takes the legal form of a grant, but in substance is a procurement of goods and/or services; and vice versa. The substance of a transaction should prevail over the strict legal wording in associated documentation.

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

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

a) APPROXIMATELY EQUAL VALUE		
Can approximately equal value between the amount/value of the transfer and benefits received by the transferor be well demonstrated? **Refer to the following indicators of approximately equal value:**		
Summary of Indicator	**Indicator of Procurement**	**Indicator of Grant**
The transferor provides a commercial level of consideration and receive goods or services in exchange	✓	
The amount transferred is solely for the quantity of goods or services to be received / delivered	✓	
There has been a contestable tender process where the transferor assessed the market to achieve better value for money	✓	
• The transferor is intending to provide a benefit to the recipient to achieve a policy objective or on compassionate grounds		✓
• The agreement is <u>not</u> enforceable (see AASB 15 para. F10–F18)[1]		✓*

a) APPROXIMATELY EQUAL VALUE		
Can approximately equal value between the amount/value of the transfer and benefits received by the transferor be well demonstrated? **Refer to the following indicators of approximately equal value:**		
Summary of Indicator	**Indicator of Procurement**	**Indicator of Grant**
• The agreement does <u>not</u> contain sufficiently specific details as to what is required of the recipient, e.g. in the form of production quantities or performance criteria (see AASB 15 paragraphs F2–F27) [2]		✓*
• The ultimate aim of the transfer to generate benefits that cannot be reliably quantified e.g. future reduction of greenhouse gases		✓
• The recipient has more than one source of funding for the activities or outputs that the transferor is contributing towards.		✓

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

b) DIRECT BENEFIT TO THE TRANSFEROR		
***Direct benefit* – Has the transferor procured goods or services for its own use or specifically directed the recipient to deliver specific goods and/or services to a specified third party on its behalf?** ***Indirect benefit* – Does the transfer provide financial assistance to the recipient so that the recipient may achieve its goals and, as such, only indirectly promotes the transferor's policy objectives?** **Refer to the following indicators of <u>direct</u> benefit:**		
Summary of Indicator	**Indicator of Procurement**	**Indicator of Grant**
• The transferor is acquiring the goods or services for use in its day-to-day operations to perform its functions	✓	
• The transferor is providing funding to the recipient to assist the recipient in meeting its own objectives (even though an indirect benefit may be obtained by the transferor through aligned objectives)		✓
Where the transferor is paying the recipient to provide goods or services to third parties:		

b) DIRECT BENEFIT TO THE TRANSFEROR

***Direct benefit* – Has the transferor procured goods or services for its own use or specifically directed the recipient to deliver specific goods and/or services to a specified third party on its behalf?**

***Indirect benefit* – Does the transfer provide financial assistance to the recipient so that the recipient may achieve its goals and, as such, only indirectly promotes the transferor's policy objectives?**

Refer to the following indicators of <u>direct</u> benefit:

Summary of Indicator	Indicator of Procurement	Indicator of Grant
• The transferor has explicitly undertaken responsibility to provide the particular good or service to the public	✓	
• The transferor determines the scope of the goods or services to be provided	✓	
• The transferor has identified, by name or by category, the third parties to whom the recipient is instructed to deliver the goods or services on the transferor's behalf	✓	
• The transferor can choose to use its own staff or another provider to deliver the services	✓	
• The service program is initiated by the recipient and the transferor is contributing funding towards the initiative		✓
• If the transferor ceases funding, the recipient will continue providing the services using other sources of funding		✓

Table 2 Footnotes:

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

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

Multiple elements in a transaction

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

Example – Different elements of a transaction

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

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

Consistent classification for inter-agency transactions

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

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

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

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

Example: Agency A pays Agency B to pay external entity C to undertake activities that provide direct benefits of equivalent value to Agency A.

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

FINANCIAL REPORTING CONSEQUENCES

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

Recognition of expense - grants

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

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

Recognition of expense - procurement

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

Presentation of expenses

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

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

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

APPENDIX 1 CLASSIFYING DIFFERENT TYPES OF TRANSACTIONS

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

Table 4: Transaction Types

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

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

APPENDIX 2 ILLUSTRATIVE CASE STUDIES

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

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

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

Case Study 1: Arrangement for another entity to provide services
<u>Step 2 - Application of classification principles:</u> ***Approximately equal value?*** • *Activities are quantifiable in dollar terms as the agreement specifies the agreed rate per flight hour.* • *Amount paid is based on number of flights delivered by the recipient (quantity).* • *Funding is only provided for services delivered in line with the arrangement.* ***Direct benefit for the agency?*** • *The contract specifies the service to be delivered. Department XYZ specifically directs Agency TRS to deliver the services to an identifiable third party. The terms and conditions of the funding agreement are sufficiently specific and directive to ensure Department XYZ's obligations are achieved.* • *Department XYZ is itself responsible for providing the services and is engaging Agency TRS to provide the services on its behalf.*
Conclusion: Procurement Based on analysis of the factors provided, the arrangement would be classified as procurement as Department XYZ receives approximately equal value by directing the use of funds to meet its obligations. For Agency TRS, it is providing equivalent value in services directly to Department XYZ in return for the revenue from that department. Therefore, in Agency TRS's Statement of Comprehensive Income this would be classified as user charges revenue. This transaction will likely be within scope of AASB 15 for Agency TRS.

Case Study 2: Funding provided with broad key performance indicators and requirements

Background

Agency XYZ provides funding to a non-government organisation (NGO) located in a rural area. The lump sum funding is to assist the NGO with ongoing operational costs. The agreement does not provide specific detail on how the funds are to be applied but some broad key performance indicators and requirements are specified in the contract.

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** No specified goods or services are delivered by the NGO in return for the lump sum.
- **Obligations in the agreement:** The agreement does not include any specifications regarding the use of the funding, the period of service nor any conditions regarding non-performance.
- **Overall intent/purpose:** To provide a lump sum to the NGO to assist it with its own ongoing operational costs.

Step 2 - Application of classification principles:

Approximately equal value?

- No goods or services of any identifiable "value" are received by Agency XYZ.
- The benefits cannot be reliably quantified.

Direct benefit for the agency?

- The contract does not specify specific goods/services to be delivered to either Agency XYZ or a third party nominated by Agency XYZ, but rather relates to a broad policy objective of Agency XYZ.
- Financial assistance can be spent at the NGO's sole discretion but within the requirements of the broad performance indicators and requirements specified in the contract.

Conclusion: Grant

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

Case Study 3: Scholarships

Background

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

Analysis

Step 1 - Gain an understanding of the arrangement:

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

Step 2 - Application of classification principles:

Approximately equal value?

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

Direct benefit for the agency?

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

Conclusion: Grant

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

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

Background

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

Analysis

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

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

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

Approximately equal value?

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

Direct benefit for the agency?

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

Conclusion: Grant

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

Case Study 4: Scenario 2 - Arrangement to provide research funding

Background

Agency ABC seeks competitive tenders from universities to conduct research on a number of particular industry-specific topics. University XYZ is the successful tenderer and Agency ABC provides it with an upfront lump-sum payment to conduct specific research.

The funding agreement between Agency ABC and University XYZ specifies the type of research to be conducted, over which period and directs in the manner in which the research should be conducted. Agency ABC requests that the rights to the intellectual property from the research are assigned to the agency and requests that certain KPIs and reporting requirements are met.

The funding agreement contains terms and conditions that enable it to be legally enforced, and Agency ABC has the means and intent to enforce its rights under the agreement. The research findings will be directly reflected in the design and delivery of new industry support services by Agency ABC.

Analysis

Step 1 - Gain an understanding of the arrangement:

- **What are the goods and services?** Intellectual property arising from industry-specific research performed by University XYZ
- **Obligations in the agreement:** The agreement includes specifications regarding the nature of the service to be provided and requires that the intellectual property from the research be assigned to Agency ABC.
- **Overall intent/purpose:** To obtain specific research findings to progress the agency's objectives**.**

Step 2 - Application of classification principles:

Approximately equal value?

- The resulting intellectual property rights will be controlled by Agency ABC.
- The price paid for the research has been determined through a competitive tender process, so it reflects a reasonable measurement of the cost necessary to obtain the research findings.

Direct benefit for the agency?

- The contract specifies the research to be conducted (i.e. applied research).
- The intellectual property arising from the research will be assigned to Agency ABC.
- The research findings will be directly used by Agency ABC in its operations.

Case Study 4: Scenario 2 - Arrangement to provide research funding
Conclusion: procurement Based on analysis of the factors provided, the arrangement would be classified as procurement, as Agency ABC receives approximately equal value in the form of the intellectual property and specified research that will directly be used in its operations. As this expenditure does not provide "front line" services to the community (the research itself will only be used by Agency ABC to inform its operations), for presentation in Agency ABC's Statement of Comprehensive Income, this would be classified as other supplies and services. NB. As this transaction is classified as procurement, to the extent that Agency ABC has not received the rights to the intellectual property it will recognise a prepayment (asset).

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

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

Case Study 6: Joint Funding Agreement

Background

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

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

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

This funding agreement addresses the following:

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

Case Study 6: Joint Funding Agreement

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

Step 1 - Gain an understanding of the arrangement:

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

Step 2 - Application of classification principles:

Approximately equal value?

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

Direct benefit for the transferor (Australian Government)?

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

Conclusion to Part 1: grant

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

Case Study 6: Joint Funding Agreement

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

Step 1 - Gain an understanding of the arrangement:

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

Step 2 - Application of classification principles:

Approximately equal value?

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

Direct benefit for the agency?

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

Conclusion to Part 2: procurement

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

Case Study 7: Funding arrangement with multiple payment elements
Background Agency STU entered into a service agreement with a not-for-profit company to deliver helicopter services to patients. The agreement entered into determines the following: • The company will be paid on an activity basis (a rate per hour of service delivered). The hourly rate paid is based on the commercial value of the service delivered by the company. The company provides Agency STU with a monthly invoice for services delivered (flight hours) to patients. • In addition, Agency STU will provide the company with annual core funding payments to assist with the general operations of the not-for-profit entity. The core funding payment is paid at the beginning of each year as non-conditional and the amount does not need to be returned. The payment is used by the company at its discretion, according to prevailing needs around that time. Furthermore, the core funding payment does not reduce Agency STU's service cost, nor does it ensure a specified service. • The contract runs for a period of three years, and contains terms and conditions that make it legally enforceable. Agency STU does <u>not</u> have a legislative obligation to provide transport to patients, however, there is considered to be a public expectation that this service will be delivered (based on its past practice over the last 10 years).
Analysis <u>Step 1 - Gain an understanding of the arrangement:</u> • **What are the goods and services?** The company is providing flight services to patients on behalf of Agency STU. • **Obligations in the agreement:** *Hourly rate:* – The agreement is specific and sets out the nature of the service to be provided by the company, the period over which it will be provided and determines that fees will be paid per hour of service delivery. *Annual core funding payment:* – There is <u>no</u> obligation on the company to perform any service or meet any objectives of Agency STU in return for the core funding payment. • **Overall intent/purpose:** To provide transport to patients.

Case Study 7: Funding arrangement with multiple payment elements

Step 2 - Application of classification principles:

Approximately equal value?

Hourly rate:

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

Annual core funding payment:

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

Direct benefit for the agency?

Hourly rate:

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

Annual core funding payment:

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

Conclusion: procurement

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

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

Case Study 8: Recurrent funding arrangement

Background

Under the *Housing Act 2003* (the Act), the Chief Executive of Agency DEF may grant assistance or funding to a service provider for the provision of housing services as defined under the Act.

Agency DEF entered into such an assistance agreement with a service provider. The assistance is for the service provider to deliver services under a Crisis Accommodation Program (CAP) to help eligible people with housing needs and move them towards independent living. The agreement with the service provider contains terms and conditions that enable Agency DEF to enforce the service provider's obligations (and Agency DEF intends to do so, if necessary). The key circumstances are:

- CAP is a Queensland and Australian Government funded program under the National Affordable Housing Agreement.

- CAP is administered by Agency DEF, and primary obligation for delivery of services rests with the agency.

- Description of services the service provider is funded to deliver:
  - ➢ All premises utilised by the provider in supplying services must be maintained to a high standard. Any maintenance undertaken by the provider must be carried out in a tradesperson-like and lawful manner and should be of good quality.
  - ➢ The funding provided under the assistance agreement must be utilised by the service provider for the delivery of housing services and only for allowable expenditure (as defined in the program specifications). Furthermore, the services can only be delivered in the geographic locations where Agency DEF specifies that services are required. Agency DEF specifies the eligibility criteria for provision of the specified housing support.
  - ➢ The funding provided by Agency DEF is based on estimates of costs that would be incurred using an efficient service delivery model and appropriate cash management.
  - ➢ Any money earned by the service provider e.g. through rent/board and bank account interest, must be dealt with as if funding was provided directly by Agency DEF.
  - ➢ If a large portion of funding remains unspent at the end of a particular period (six months), then the agency can adjust future funding to take into account the unspent amount (i.e. reduce the next instalment of funding) or authorise the use by the service provider of the unspent amount for another purpose.

Case Study 8: Recurrent funding arrangement

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

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

Analysis

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

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

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

Approximately equal value?

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

Direct benefit for the agency?

- Agency DEF directs the use of the funds, as funding is only provided for services delivered in line with the assistance agreement.
- Agency DEF directs the service provider to deliver specified services to identified individuals (eligible persons) on its behalf. The terms and conditions of the agreement are sufficiently specific and directive to ensure achievement of Agency DEF's obligations under the CAP.

Case Study 8: Recurrent funding arrangement
Conclusion: procurement Based on analysis of the factors provided, the arrangement would be classified as procurement as Agency DEF receives approximately equal value by directing the use of the funds to meet its obligations. This results in a direct benefit to Agency DEF. NB. As this transaction is classified as procurement, to the extent that the service provider has not delivered services to Agency DEF as per the assistance agreement (and met any other obligations), Agency DEF will recognise a prepayment (asset).

Case Study 9: Acquisition of services via an interposed entity
Background Under an intergovernmental agreement, Agency JKL is responsible for the provision of services to eligible young people with a disability. In some cases, such young people reside in privately-run aged care facilities. Those aged care facilities receive their primary funding from the Australian Government. To reimburse the Australian Government for its funding costs that relate to Agency JKL's responsibilities, the agency pays the Australian Government an annual lump sum based on the estimated cost of service delivery and projections of the number of eligible young people in the relevant aged care facilities during the coming financial year. The Australian Government and Agency JKL agree on the methodology for estimating the amount of this payment, which is reviewed annually.
Step 1 - Gain an understanding of the payment: • **What are the goods and services?** Residential care for eligible young people with a disability. • **Obligations in the agreement**: The payment obligations are based on estimates of the costs incurred by private sector providers for an estimated number of eligible people. • **Overall intent/purpose:** To fund costs that Agency JKL is responsible for. Step 2 - Application of classification principles: ***Approximately equal value?*** • The amount of the lump sum payment is based on the estimated cost of housing a particular number of eligible people (that Agency JKL has an existing obligation to finance).

Case Study 9: Acquisition of services via an interposed entity

Direct benefit for the agency?

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

Conclusion: procurement

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

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

Case Study 10: Contributing to an NGO's initiative

Background

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

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

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

Step 1 - Gain an understanding of the arrangement:

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

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