



Government of Western Australia  
Department of Local Government

Mr Kevin Stevenson  
Chairman and CEO  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Dear Mr Stevenson,

**ED 180 – INCOME FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)**

The Department offers its response to the Board on ED 180 – Income from Non-exchange Transactions (Taxes and Transfers) in the attached submission.

The Department has its own finance reporting working party made up of local government finance professionals, accountants and auditors that have contributed to this submission.

A copy of the submission has been emailed to the Board.

Yours sincerely,

Peter Hayes, CA  
PRINCIPAL PROJECT OFFICER  
LOCAL GOVERNMENT ADVICE & SUPPORT

November 2009

## Western Australian Department of Local Government

### Submission to the Australian Accounting Standards Board (AASB) on Exposure Draft ED 180, FRSB ED 118 – Income from Non-exchange Transactions (Taxes and Transfers)

The Department of Local Government in Western Australia offers the following response to the AASB's request for comment to specific matters as set out in and relating to ED 180.

For both Australian and New Zealand Constituents:

#### (a) the Boards' approach of developing the proposal based on IPSAS 23;

IPSAS 23 is a suitable starting point for developing a new standard to address the recognition and measurement issues associated with income from non-exchange transactions as the standard was developed for the public sector by the International Public Sector Accounting Standards Board.

IPSAS 23 relates specifically to Taxes and Transfers and the Board's approach to developing a new standard requires further amendment. It needs to include further guidance on the appropriate treatment of various grants received by local governments. For example what are the implications for multi-year grant arrangements? Funding agencies for multi-year agreements have standard payments timeframes and generally require binding contracts.

IPSAS 23 provides guidance for taxes and transfers, with transfers including fines, bequests, gifts and donations, services in kind and debt forgiveness. It does not include commentary or examples for different grants received by local governments

Local governments, especially in regional parts of Western Australia, receive a significant proportion of their income from grants. The treatment of grants depends on whether specific grants are considered firstly an exchange or a non-exchange transaction and if a non-exchange transaction when to bring in a liability. Commentary supported by examples on the appropriate treatment of different grants, and determining when a liability is recognised based on the crystallisation of a binding arrangement or a condition would be useful.

#### Paragraph 8 - Definitions

There is no definition of the term “**rates**” in the exposure draft ED 180. Rates are considered a tax on land, and as such it would be appropriate to expand the definition of taxes to include rates, or provide a separate definition for rates in ED 180. The definition of rates should include specified area rates.

There is no definition of the term “**grants**”. A distinction needs to be made between restricted and unrestricted grants and conditions applicable to a

grant. Where a grant has a restriction (as opposed to a condition) this needs to be clarified with suitable examples, as income is immediately recognised for a grant with a restriction and a liability when there is a condition. This will prevent variations in treatment and provide consistent reporting.

There is no definition of the term **“received in advance”**.

There is no definition of what constitutes a **“binding arrangement”**.

There is no definition for a **“service charge”**.

**(b) whether there are any differences between Australia and New Zealand that would override the Boards’ desire for converged Standards for non-exchange transactions;**

No comment.

**(c) whether further guidance or illustrative examples are required in distinguishing exchange and non-exchange transactions or components of transactions;**

Examples would be beneficial covering the treatment of different grants, differentiating between a condition and a restriction and the appropriate treatment of grants **“received in advance”**.

There needs to be a distinction between a condition and a binding arrangement with appropriate examples. Receipts in advance are recognised where the agreement is binding. As neither the terms **“in advance”** and **“binding”** are defined, definitions are necessary with examples.

### **Example**

**Advance Receipts of General Purpose Grants (non- exchange transactions) from the Commonwealth to local governments is recognised as income in the period of receipt of the funds as control of the asset passes to the local government and there are no conditions attached to the grant**

The advance payment by the Commonwealth of the first quarterly general purpose grant for 2009/2010 received by local governments in the 2008/2009 financial year has distorted financial comparisons between the two financial years. In 2008/2009 there were five quarterly instalments received as income with the following year disclosing the receipt of three quarterly instalments.

The grants were distributed by the Commonwealth to the States Grants Commission as an economic stimulus package to local governments before the 30 June 2009, and treated as an asset and income in the year the grants were received. As there is no present obligation to be met in the 2008/2009 financial year, ED 180 treats the advance receipt as an asset and income in the 2008/2009 Financial Year. A stipulation that transferred assets should be utilised over a stated period is not a condition as defined in ED 180, and as no

other conditions are attached to the grant the receipt is recognised as an asset and income in the period it is received as control of the asset passes to the local government.

It would appear the grant is unable to be treated as an advance receipt as there is no binding arrangement or condition for the advance receipt of the general purpose grant. Local governments were allowed to use the grant either in the current or future financial years.

The reason:

1. The inflow gives rise to an item that meets the definition of an asset (cash).
2. The inflow satisfies the criteria for recognition as an asset (control passes to the local government).
3. The inflow does not result from a contribution from owners.
4. The transaction is a non-exchange transaction.
5. There is no present obligation relating to the inflow (utilisation of the grant for general purpose is unconditional and may be used immediately).
6. There is an asset and income and no liability.

When there is no mechanism in place under existing standards that separates or discloses a one off receipt from normal operations, it distorts the income in the year of receipt and for the following year when the expenditure is incurred as there is no offsetting revenue (as the matching principle no longer applies for advance receipts of grants without conditions). There is the risk and potential of losing track of these forms of advance receipts and applying the funds for a purpose that was unintended.

### **Example**

**Grants approved and payment made to local governments as part of the Royalties for Regions funding. The Country Local Government Fund will need to be treated by local governments in a specific manner based on certain principles covered by ED 180.**

The Country Local Government Fund provides direct funding to local governments to address infrastructure requirements, improve asset management and capacity building and encourage standardised asset management practices and improve regional governance in local government. Funding is provided for a specific project. The appropriate treatment of the grant is to recognise an asset and liability on receipt of the grant where the condition is not met.

The reason:

1. The inflow and receipt satisfies the criteria for recognition of an asset as control passes to the local government.
2. There is a liability to the extent that the present obligation has not been met and the amount is repayable if not spent.

3. A present obligation arising from a non-exchange transaction that meets the definition of a liability.

**(d) the definition and treatment of conditions on transferred assets;**

There are a number of capital grants for projects that often have no clauses requiring the funds to be returned if they remain unspent. The grants often require the expenditure to be audited and the acquittal confirmed. In these cases there is no liability until such time as the unspent grant funds are to be returned by the recipient. This requires the recognition of a liability years later, especially if there are no conditions requiring the recognition of a liability on receipt of the grant. Should an “**acquittal**” be treated as a condition to address this matter, and defined accordingly?

Grants are transferred assets, either with or without conditions attached. The conditions/restrictions embodied in the grant may require the recipient to spend or consume the asset as specified or return the funds by a due date. However this normally occurs when there is a binding arrangement. Binding arrangements should be defined and distinguished from a condition/restriction.

It is difficult to establish whether stipulations as part of an agreement are conditions or restrictions, and when an agreement is binding. This needs further clarification and examples in order to apply the appropriate treatment of the income and liability.

**(e) the treatment of advance receipts;**

There are examples of different forms of advance receipts in ED 180. Further examples of advance receipts for rates and grants would be appropriate.

**Para 67** recognises the advance receipt of taxes (that includes rates) as an asset and a liability as the resource for taxes because the taxable event that gives rise to an entity’s entitlement to the taxes has not occurred and the recognition of the taxation income has not occurred. This treatment is a change in principle from those established by AASB 1004 where rates in advance are recognised as revenue as the entity gains control of the asset.

**(f) permitting, but not requiring the recognition of contribution of services;**

All contributions including services should be included as part of ED 180.

Rates are considered a tax and therefore a non-exchange transaction. Fees for service are considered an exchange transaction and a liability should be recognised for the portion of an unmet condition. This should be made clear as there is a risk of treating both items as a tax or an exchange transaction when rates are issued at the same time as fees for services.

- (g) requiring disclosure of the nature and type of major class of services in-kind received (paragraph 108) – IPSAS 23 encourages but does not require such disclosure;**

Where services in-kind are material they should be disclosed. Local governments often rely on voluntary groups to provide various services for their community, for example, meals on wheels and charitable services carried out on behalf of local governments where the value of these in-kind services are considered significant. The contribution should be properly recorded and disclosed.

- (h) the implications of recognising financial assets and financial liabilities that fall within the scope of this ED in accordance with the proposals rather than AASB 139/NZ IAS 39;**

No comment.

- (i) the measurement requirements, particularly in respect of financial assets and financial liabilities; and**

The measurement of assets and liabilities acquired as a result of a non-exchange transaction is adequately covered under AASB 139.

- (j) prospective application per the transitional provisions.**

No comment

**For Australian Constituents Only:**

- (k) the exclusion of for-profit government departments from the scope of the ED – are requirements from such entities still required?;**

For-profit government departments should be included in the scope of ED 180 if they are in receipt of income from non-exchange transactions from State and Commonwealth Governments.

- (l) the retention of requirements for restructure of administrative arrangements;**

No comment, applicable more to government departments and adequately covered by AASB 1050.

- (m) whether recognition requirements are needed in respect of contributions from owners and distributions to owners generally;**

No comment.

- (n) The role of AASB Interpretation 1038 once a Standard based on the ED is issued;**

No comment

**(o) the proposed amendments to other Australian Accounting Standards as set out in Appendix A;**

No comment.

**(p) whether, overall, the proposals would result in financial statements that would be useful to users; and**

Income from non-exchange transactions represents a significant portion of the total income of local governments. The risk of not reporting income from non-exchange transactions accurately and consistently by all local governments has the potential of distorting the financial information for users of this information.

**(q) Whether, the proposals are in the best interests of the Australian economy.**

The proposals are in the best interest of the economy provided the principles are concise and readily understood and properly applied to provide consistent and accurate financial reporting. If the principles and guidance is too broad then variations in application will continue.