



New South Wales
TREASURY

Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VIC 8007

Contact: D. McHugh
Telephone: (02) 9228 5340
Our Reference:
Your Reference:

12 May 2009

Dear Mr Porter

Exposure Draft 174 Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS

New South Wales Treasury welcomes the opportunity to provide comments on ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS*. Detailed comments on the Exposure Draft are attached.

Subject to the attached comments, NSW Treasury generally supports the proposals as they substantially harmonise GAAP/GFS for entities within the GGS.

However, while we appreciate that it is the intention of the AASB to allow for the net cost of services presentation format, we do not believe that the current 'net cost of services' approach, is possible under GFS/GAAP harmonisation. This is because GFS requires a single total for the 'net result from transactions', while a GAAP 'net cost of services' combines 'transactions' and 'other economic flows'.

Instead, NSW Treasury strongly supports a modified net cost of services approach, based on the 'net cost of services from transactions' (refer Appendix A). We believe that this approach is consistent with GFS/GAAP harmonisation at the GGS level, as it measures an individual GGS agencies' contribution to the GGS Net Operating Balance; i.e. as government contributions eliminate at the GGS level.

Therefore, NSW Treasury strongly recommends that the proposed Standard:

- clarifies that a 'net cost of services from transactions' approach is permissible and
- includes an example illustrating this approach.

If you have any queries regarding the NSW Treasury submission, please contact me on 9228 3019.

Yours faithfully

A handwritten signature in cursive script that reads "Robert Williams".

Robert Williams
for Secretary

**NSW TREASURY COMMENTS ON ED 174
“AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS TO
FACILITATE GAAP / GFS HARMONISATION
FOR ENTITIES WITHIN THE GGS”**

- (a) Are the proposals necessary and / or sufficient to satisfy the objective of GAAP / GFS harmonisation for entities within the GGS? If not, what approach would you suggest? Please provide your assessment of the costs and benefits of your preferred approach, and how you believe it would better meet the needs of users

Yes, subject to the comments provided in the following responses.

- (b) Is it appropriate for the proposals to apply to for-profit entities within the GGS?

Yes, as this is consistent with GFS.

- (c) Should the entities within the GGS be subject to the principle in AASB 1049 that, where there is a choice in GAAP that aligns with GFS, that choice is mandated?

Yes. We believe that the adoption of GFS compliant options is necessary to maximise the benefits of relevance and consistency.

- (d) Is it appropriate to expand the application of paragraphs 15-21 of AASB 1052 beyond government departments?

No. Extending the scope of AASB 1052 from government departments to GGS entities is not justified on the basis of GFS harmonisation. This is because the GFS disaggregated disclosures are not relevant at the individual entity level.

Further, there are many examples where there are differences between disclosure requirements with entities within the GGS (e.g. most of the old AAS 29 requirements apply to departments only). Therefore, an argument (per para BC13) based on consistency among entities within the GGS does not justify making this amendment. We believe that this issue is best addressed as part of the separate AASB public sector project on disaggregated information.

- (e) Should entities within the GGS be subject to the same kind of budgetary reporting requirements that are specified in paragraphs 59-65 of AASB 1049?

No. At this stage, we believe that it is premature to adopt the AASB 1049 budget reporting disclosures at the general government sector entity level. NSW Treasury's preference is to delay any decisions on this matter, pending the AASB's separate project on budget reporting.

- (f) Is there a need for specific transitional requirements to facilitate the adoption of the proposals?

Yes, transitional provisions are required if it is decided to require agencies to adopt the choice in GAAP that aligns with GFS. In these circumstances, there may be a need to change options, which the entity may otherwise be prevented from doing.

- (g) Overall, would the proposals result in financial statements that would be useful to users?

Yes, as it will increase consistency between entities and with the whole of government and general government sector financial reports and Budget reporting.

- (h) Are the proposals in the best interest of the Australian economy?

Yes.

- (i) Other comments

Net cost of services approach

NSW Treasury does not believe that the 'net cost of services' approach, as we have known it, is possible under GFS/GAAP harmonisation. This is because GFS requires a single total for the 'net result from transactions', while a GAAP 'net cost of services' combines 'transactions' and 'other economic flows'.

However, NSW Treasury strongly supports a modified net cost of services approach, based on the 'net cost of services from transactions'. This approach is illustrated in Appendix A to this submission. In jurisdictions that do not use an output budgeting approach, the concept of net cost of services remains relevant. A 'net cost of services from transactions' approach is consistent with GFS/GAAP harmonisation at the GGS level, as it measures an individual GGS agencies' contribution to the GGS Net Operating Balance (Net Result from Transactions); i.e. as government contributions eliminate at the GGS level.

Accordingly, we strongly recommend that the proposed Standard:

- Clarifies that a 'net cost of services from transactions' approach is permissible.
- Includes an example illustrating this approach; i.e. in addition to the current format included in the Supplement to the ED. It is important that both formats are illustrated, to address the different financial management frameworks across Australia.

Illustrative example supplement

NSW Treasury believes that the draft Illustrative Example provides helpful information in implementing the proposals in ED 174. Therefore, we support issuing an Illustrative Example as guidance to accompany the GFS/GAAP harmonisation requirements for GGS entities. As discussed above, we also support include an additional operating statement format to illustrate the ‘net cost of services from transactions’ approach.

In addition, we support the AASB’s comments about further developing the example to consider a number of issues, including consistency with the AASB 1049 examples and the presentation of discontinued operations.

In particular, in regard to ‘discontinued operations’, we do not believe that it is necessary to include the individual line items (i.e. such as ‘output appropriations’ etc) on the face of the Operating Statement. NSW Treasury would prefer a single line item for ‘discontinued operations – transactions’ and ‘discontinued operations – other economic flows’, with detailed line item disclosures in the notes. Disclosing this information on the face of the Operating Statement will unduly lengthen and complicate the Operating Statement.

Definition of an “entity within the GGS”

NSW Treasury is concerned about the approach to defining an “entity within the GGS”, which relies on a number of sub-definitions, and the potential that some may argue that an individual government department does not technically meet the definition/s.

A preferred alternative approach is to adopt a simplistic definition of an “entity within the GGS”, by requiring the Standard to be applied to reporting entities that are classified (in conjunction with the ABS) as being part of the general government sector for a particular jurisdiction. This would only require a definition for the “general government sector”.

This is preferred over the proposed approach, which relies on a string of ABS definitions that have little or no meaning to individual agencies; and which may raise technical issues about whether those definitions are satisfied.

For example, the definition of “government units” refers to providing goods and services and redistributing income and wealth by means of taxes and other compulsory transfers. But, it is possible that some departments may not meet the definition, given that while many departments provide subsidised or free goods and services of some form, they may not necessarily impose taxes / compulsory transfers (e.g. Department of Community Services).

Further, according to the ABS GFS Manual (2005), conceptually individual GGS departments do not qualify as separate statistical units, but “...are part of a wider enterprise...” (para 2.16):

Thus in concept, each jurisdiction...includes an enterprise that comprises all departments and authorities included in the jurisdiction’s public accounts” (para 2.13).

Based on this, and a literal reading of the proposed definitions in ED 174, there may be an argument that not all departments meet the definition of an “entity within the GGS”. Therefore, to avoid this interpretation, the above alternative simple approach is preferred.

Application to economic entities that include PTE subsidiaries

NSW Treasury believes that further guidance is required regarding an economic entity that comprises a GGS parent with a PTE subsidiary. The question is: should the economic entity be subject to the GFS/GAAP requirements? Para BC 9-10 partially addresses this issue in that it says a GGS should consolidate all controlled entities including those in the PNFC. However, the economic entity which combines the GGS and PNFC entities would not satisfy the definition of an “entity within the GGS”, because this is a GFS concept, and GFS excludes non-GGS subsidiaries. As a result, there may be a perceived inconsistency in the Standard, where on the one hand a parent is required to consolidate a PTE subsidiary, but on the other hand the resulting economic entity may not satisfy the definition of an “entity within the GGS”. This inconsistency should be explicitly addressed.

Exclusion of multi-jurisdictional entities

To ensure multi-jurisdictional entities such as universities are excluded from the scope of the draft Standard, it is suggested that the definition of an “entity within the GGS” is modified (i.e. assuming the AASB decides to retain this definition) to refer to units “controlled and mainly financed by a government”, rather than “by government”. This makes it clear that it is not sufficient that governments (i.e. a number of jurisdictions) collectively control these entities, but that to be within scope of the Standard it must be controlled by one government. Also refer to comments above regarding “definition of an entity within the GGS” above.

Key fiscal aggregates

NSW Treasury believes the ED needs to explicitly state in para Aus47.1 that, when it requires the presentation of the primary financial statements in accordance with the ABS GFS Manual, in terms of the GFS key fiscal aggregates, it is only requiring the disclosure of the ‘net operating balance’ and other GAAP aggregates already required by the Accounting Standards. This is only clearly stated in the preface and in para BC3.

Explanation of approach

We believe that the justification for a different approach to harmonisation at the entity level compared to the sector level needs to be strengthened in the Preface and Basis for Conclusions (para BC2). In particular, the BC needs to explain why many aspects of AASB 1049 are not relevant at the entity level; i.e. because GFS is largely a macroeconomic tool and that GFS harmonisation is not meaningful at the individual entity level, other than for presentational consistency.

Additional material

NSW suggests that the AASB include, at a minimum, explanation / definition of relevant terms; i.e. for ‘transactions’, ‘other economic flows’, the ‘net operating balance’ and the meaning in the cash flow statement of ‘investing in financial assets for policy purposes’ and ‘investing in financial assets for liquidity management purposes’.

Additional guidance is also required to address situations where liabilities, such as defined benefit superannuation or long service leave, are assumed by the Government. This requires clarification as to how AASB 1004, paras 41-43, applies under GFS/GAAP. In these circumstances, a notional expense and revenue, often based on factors, is recognised, to reflect the benefit the agency receives. However, as no liability is recognised or calculated by the agency, it is unclear how the distinction between a 'transaction' and 'other economic flow' would apply.

For example, in our illustrative example in Appendix A, we have assumed that the 'acceptance of the liability' by the Crown/Government is a 'transaction'. But arguably the expense could include a 'transaction' and 'other economic flow' element, particularly where the factors have changed; i.e. as it may be viewed as a 'remeasurement'.

**Possible Format – Comprehensive Operating statement –
Modified Net Cost of Services format**

| | <i>(\$ thousand)</i> | |
|---|----------------------|------|
| | 2010 | 2009 |
| Expenses from transactions | | |
| Operating expenses | | |
| Employee related | | |
| Other operating expenses | | |
| Depreciation and amortisation | | |
| Grants and subsidies | | |
| Finance costs | | |
| Other expenses | | |
| Total expenses from transactions | | |
| Revenue from transactions (excluding government contributions) | | |
| Sale of goods and services | | |
| Investment revenue | | |
| Retained taxes, fees and fines | | |
| Grants and contributions | | |
| Other revenue | | |
| Total revenue from transactions (excluding government contributions) | | |
| NET COST OF SERVICES FROM TRANSACTIONS | | |
| Government contributions (transactions) | | |
| Recurrent appropriations | | |
| Capital appropriations | | |
| (Asset sale proceeds transferred to the Crown Entity) | | |
| Acceptance by the Crown Entity of employee benefits and other liabilities | | |
| Total Government contributions (transactions) | | |
| NET RESULT FROM TRANSACTIONS (NET OPERATING BALANCE) | | |
| Other economic flows included in surplus / deficit | | |
| Net gain/(loss) on non-financial assets | | |
| Net gain/(loss) on financial instruments and statutory receivables/payables | | |
| Other gains/(losses) from other economic flows | | |
| Total other economic flows | | |
| SURPLUS / (DEFICIT) FOR THE YEAR | | |
| Other economic flows – other non-owner changes in equity | | |
| Changes in physical asset revaluation reserve | | |
| Financial assets available-for-sale reserve: | | |
| – Gain/(loss) taken to equity | | |
| – Transferred to profit or loss for the period | | |
| Other | | |
| Total other economic flows – Other non-owner changes in equity | | |
| COMPREHENSIVE RESULT | | |

G:\fmr\Accounting Policy\Strategic Management Frameworks\Submissions\AASB 1049 GFS GAAP\ED 174 GGS entity level\ED 174\NSW comments on ED 174.doc