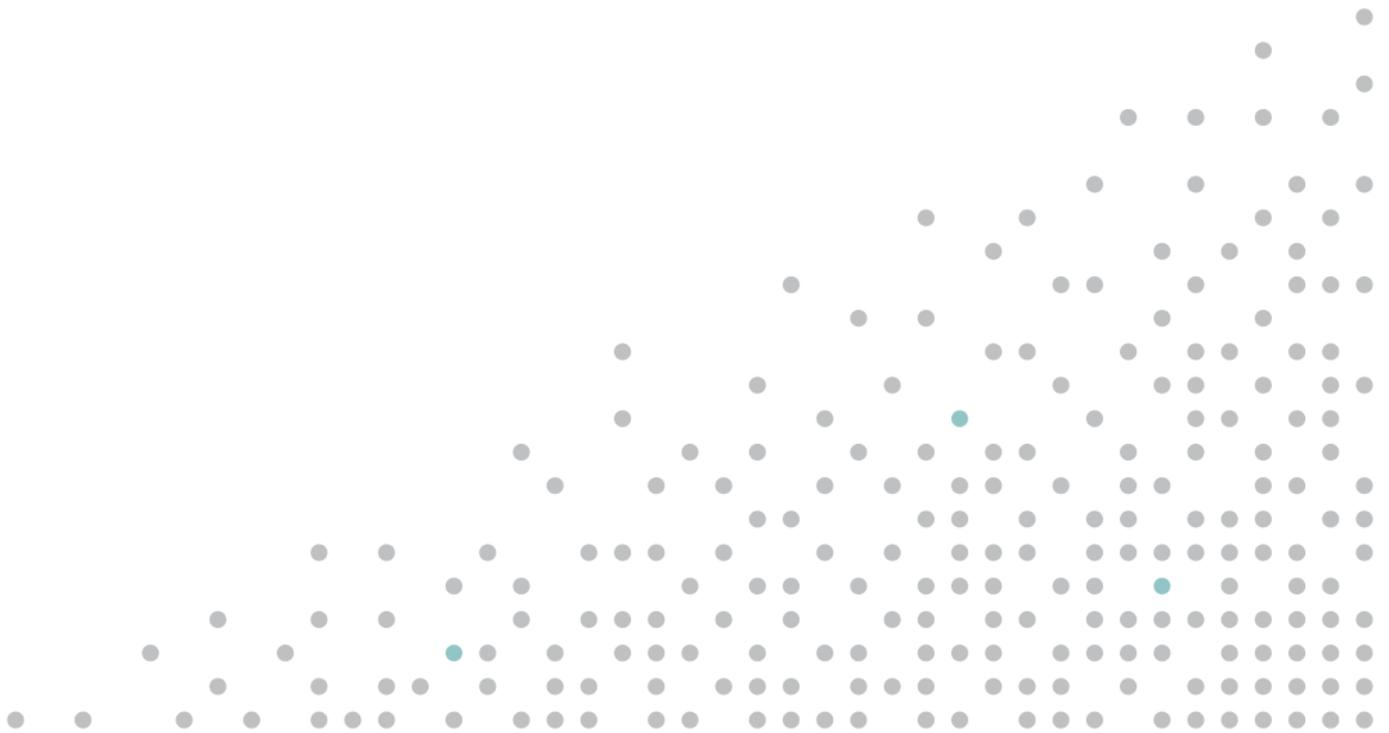




Australian Government
Department of Finance



Guide to classifying payments to other levels of government for specific purposes and Commonwealth own-purpose expenses

OCTOBER 2019

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ISBN: 978-1-925205-51-0 (Online)

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Audience

This guide applies to all Commonwealth entities.

Key points

- **laws/rules/policy:** The federal financial relations (FFR) framework established by the *Intergovernmental Agreement on Federal Financial Relations* (IGA) and supported by the *Federal Financial Relations Act 2009* and the *COAG Reform Fund Act 2008* was introduced on 1 January 2009. The FFR framework centralised payments to and through the States and Territories for general and specific purposes.
- **purpose:** To provide guidance to entities on the classification of payments to other levels of government for specific purposes as distinct from Commonwealth own-purpose expenses (COPEs) that may involve payments to other levels of government. The correct classification of payments is important as this determines how each payment is reported in the Australian Government's Budget papers; which Commonwealth entity is responsible for making and reporting the payment in financial statements and whether payments are subject to FFR framework and require an agreement under the IGA, or the Department of Finance (Finance) – issued Commonwealth Grant Rules and Guidelines (CGRGs).
- **reference previous guidance:** This guide replaces Finance Circular 2010/02 – *Classification of Payments to the States and Territories and Commonwealth Own – Purpose Expenses*.

Resources

This guide is available on the Department of Finance website at www.finance.gov.au.

Further information on the IGA, FFR framework and associated arrangements for agreements and payments, can be found on the Council for Federal Financial Relations website at www.federalfinancialrelations.gov.au

Enquiries regarding payments made under the FFR framework should be directed to the Department of Treasury (Treasury) (email: State.Payments@treasury.gov.au).

Enquiries regarding whether an Australian Government payment should be classified as a COPE or a payment to or through the States or direct local government should be directed to cope@finance.gov.au.

Enquiries regarding Commonwealth-State expenditure policy issues should be directed to the relevant Agency Advice Units.

Information about the CGRGs (only applicable to non-corporate Commonwealth entities under the *Public Governance, Performance and Accountability Act 2013*) is available on the Department of Finance website at www.finance.gov.au.

Recognition Criteria

The following criteria determine whether payments made to other levels of government are recognised as COPEs. The attached decision tree diagram (Appendix 1) illustrates the classification process.

- **Contestability:** First, determining whether the funding is available to all sectors of the economy will influence its classification as a COPE or a payments/through the States or direct to local government.
 - Where the allocation of Commonwealth funding is open to all sectors of the economy, including all levels of government, this expenditure is a COPE. This includes fee-for-service type arrangements.
 - In contrast, when the funding is not open and is instead restricted to other levels of government or particular bodies in areas of state government responsibility such as public hospitals, schools and local councils, it may be classified as payments to or through the States or direct local government.
- **The nature of transactions:** Second, the nature of transaction helps to determine whether a payment to other governments is a COPE. A payment made to other governments, or sectors regulated by them through legislation, for an activity under their responsibility will not typically be considered a COPE.
 - For example, payments to the States for non-government schools are not regarded as COPE even though the Australian Government provides the majority of government funding to these schools. Their classification as a payments through the States derives from the fact that non-government schools are established under the States and Territories education systems, which are responsible for regulating schools and have primary responsibility for the sector.

Background

What is a COPE?

1. A COPE is an expense made by the Australian Government in the conduct of its own general government sector entities, and includes expenses for the purchase of goods and services and transfer payments. COPEs may be paid to other levels of government, as discussed previously under recognition criteria, in which case the payments are:
 - Made and reported by the responsible Australian Government entity;
 - Not reported in Budget Paper No. 3; and
 - May be subject to the CGRGs for transfer payments.

Arrangements under the FFR framework

2. Financial aspects of the FFR framework are administered by Treasury. The framework includes payments to or through the State governments and excludes COPEs and payments direct to local government. It provides ongoing financial support for the delivery of services by the States through:
 - General revenue assistance, including Goods and Services Tax payments and other general revenue assistance, to be used by the States according to their own budget priorities; and
 - Payments for specific purposes; and
 - National Specific Purpose Payments (NSPP) to be spent by the States in key services delivery sectors; and
 - National Partnership payments (NP payments) to support the delivery of specified outputs or projects, to facilitate reforms or to reward the States for nationally significant reforms.
3. The Treasurer is accountable for payments to the States, including through the COAG Reform Fund. Treasury, in consultation with portfolio entities, is responsible for the administration of estimates and payments under the FFR framework, which are reported in Budget Paper No. 3, Australia's Federal Financial Relations.
4. The relevant Commonwealth minister and entity remain responsible for ensuring that all necessary policy and budget authority exists, and the day to day administration of agreements, including that requirement for all relevant legislative approvals to be in place. Further information the IGA and accountabilities under the FFR framework are set out in the Short Guide to the IGA.
5. Finance is responsible for the classification of revenue and expenses in the Budget papers. Payments to local governments are not covered by FFR framework and are generally subject to the CGRGs.

Scenario 1: COPE*

Case: In order to support older people who need care, the Government decided to fund the costs of providing a robot for each Australian who is aged over 70 years and staying home. The trial programme made grants available through competitive tender to project proponents who could demonstrate the capacity to develop, arrange and administer the manufacturing, deliveries, operations, upgrade and maintenance. State governments were selected as one of the service providers in the tender process.

Advice: This will be classified as a COPE and will be subject to the CGRGs. It passes the contestability test as the funding is available to all sectors of the economy, including other levels of government.

Scenario 2: Payments to or through the states*

Payments to the states:

Case: The Government will provide \$200m contribution towards the redevelopment of a children's hospital. The hospital is a public hospital and the State Government announced that it will fund the hospital's redevelopment.

Advice: The Government's contribution of \$200m would be classified as a 'Payments to the States' and will be subject to the FFR framework and published in the Budget Paper 3. The rationale for the classification is as follows:

1. Contestability: The funding is non-contestable as it is provided directly to the State Government therefore the second test is applied;
2. Natures of Transaction: The hospital is a part of state health system and the State is responsible for the delivery of public hospital services. The State Government funds the project and is responsible for the delivery of the project.

Payments through the states:

A 'Payment through the states' classification would be used in the following situations:

- Where the states have primary responsibility for the activity and the payments are initially made to the states who then pass on the funding to non-government entities (i.e. states act as agents) such as payments for non-government schools;
- Indirect Local Governments Assistance payments where the States have little impact on how the resources are used; and
- If the programmes are jointly administered by the Commonwealth and the States.

Scenario 3: Payments direct to local governments*

Case: The Government will provide \$100million for a local council to build a community centre. The project will increase the number of tourists to the town centre.

Advice: The payment will be classified as a payment direct to local government and will generally be subject to the CGRGs.

1. Contestability: The funding is non-contestable as it is provided directly to the Council; and
2. Nature of Transaction: It is the Council's project and the Council will take the responsibility and the delivery of the project and will receive benefits from the project.

***Note:** The scenarios in these examples are hypothetical and for illustration only.

Appendix 1 – Decision Tree Diagram

