Australian Government

Department of Finance

GUIDE

Resource Management Guide No. 118

Accounting for Machinery of Government Changes

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Use of the Coat of Arms

The terms under which the Coat of Arms can be used are detailed on the following website: www.itsanhonour.gov.au/coat-arms.

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This guide contains material that has been prepared to assist Commonwealth entities and companies to apply the principles and requirements of the *Public Governance, Performance and Accountability Act 2013* and associated rules, and any applicable policies. In this guide the: mandatory principles or requirements are set out as things entities and officials 'must' do; and actions, or practices, that entities and officials are expected to take into account to give effect to those and principles and/or requirements are set out as things entities and officials 'should consider' doing.

Audience

This Guide applies to: CFOs and CFO Units in all Commonwealth entities that have had machinery of government (MOG) changes.

This guide is designed to be read in conjunction with the relevant Australian Accounting Standard.

Key points

- The process for determining asset and liability transfers is separate from the transfer of appropriation but for convenience, is dealt with in one Resource Management Guide.
- **Policy**:
  - Assets and liabilities should transfer according to whichever entity has responsibility for them. The timing of change of responsibility is broadly aligned to change of control, based on legal requirements, and will vary from item to item.
  - Transfers of appropriation amounts for the purpose of PGPA Act section 75 need to be agreed between entities and apply from the date specified in the instrument.
- **Purpose**: To provide advice as to when changes arising from machinery of government (MoG) changes, should be recorded in entities' accounts and records.
- **Scope**: Limited to financial management implications. Excludes other procedural matters arising from changing or abolishing entities' functions.
- **Aim**: To provide guidance on specific accounting and reporting topics but does not take precedence over the financial reporting regulatory framework, which encompasses the Australian Accounting Standards and the PGPA Financial Reporting Rule (FRR).
- **Reference previous guidance**: This guide replaces Finance*Brief* 6 and Finance*Brief* 37.

Resources

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

Applicable accounting pronouncements

- AASB 1004 *Contributions*

Commonwealth Entities Financial Statements Guide (incorporating the FRR)

- Part H Restructures
- Part I Appropriations
- Chapter 47 Reporting of Outcomes

Other resources

- The Estimates Memorandum on Costing Departmental Expenses in New Policy Proposals (NPPs) (as amended)

- APSC publication: *Implementing Machinery of Government Changes – A good practice guide* for further guidance on the implementation of MoG changes

Contact information

For further information or clarification, please email Budget Estimates and Accounting (BEA) at accountingpolicy@finance.gov.au.

Policy

1. The Department of Finance (Finance) is of the view that the assets and liabilities should be accounted for by whichever entity has responsibility for them. The timing of change of responsibility is broadly aligned to change of control, based on legal requirements, and will vary from item to item.

2. Transfers of appropriation amounts between non-corporate Commonwealth entities need to be determined by the Finance Minister under PGPA section 75(2). The determination is a legislative instrument under subsection (7).

Background

3. From time to time, the government changes the way it is organised, resulting in changes to entity functions.

4. Accounting for such changes is per AASB 1004 *Contributions* and section 26 of the FRR.

5. Common examples of MoG changes are:

    a. changes to the Administrative Arrangements Order (AAO) following a Prime Ministerial decision to abolish or create a department or to move functions/ responsibilities between departments/agencies

    b. creation of a new statutory agency or executive agency, or abolition of such agencies

    c. movement of functions into, or out of, the Australian Public Service.

6. Not all MoG changes involve a change to the AAO. Changes involving the movement of only a small function from one portfolio to the other, would not normally require changes to the AAO.

7. While responsibility for a function and administration of legislation transfers from one entity to another at the time of the MoG change, legally this does not necessarily mean that responsibility for all the assets, liabilities, revenues and expenses transfers at that date. As a practical measure it is often impossible to make the necessary transfers on the date of the MoG change.

8. The date an entity becomes responsible for the assets, liabilities, revenues and expenses differs, depending on whether an agreement (between the losing and gaining entity) is necessary to determine the correct amount of appropriation to transfer:

    - Responsibility for any assets, liabilities, revenues and expenses created by legislation for which responsibility transfers, transfer on the date of the MoG change.

    - *Public Service Act 1999* (PS Act) staff to be transferred, even those specifically allocated to a transferring function, do not transfer until the requirements of section 72 of the

PS Act are complied with. Similar arrangements may apply to other entities that employ staff other than under the PS Act.

- Other assets and liabilities remain in the losing entity's custody until such time as there is agreement to transfer them. In some cases this may require agreement by external parties.
- Appropriations contained in appropriation bills are not transferred except by virtue of a legal instrument under section 75 of the PGPA Act. The date of effect is independent of (although may be aligned with) other accounting for the changes in MoG.
- Similar to above, other revenues and expenses remain in the losing entity's custody until such time as there is agreement to transfer them.

Guidance

Timing of changes

MoG change date

9. The following transfer at MoG change date:

- Special appropriations in legislation.
- Special accounts (including related bank accounts) to which section 80 of the PGPA Act refers.
- Revenues and expenses which are collected or incurred under specific legislation – e.g. levies or fines.

Another date

10. The following may transfer at a date other than MoG change date, as specified below:

- Other appropriations transfer at the date on which a section 75 instrument has effect (which might not necessarily be the date on which it is signed).
- Special accounts (including related bank accounts) to which section 78 of the PGPA Act apply, transfer on the date of transfer agreed between the two entities (and the date of transfer must be communicated to Finance as soon as possible to enable CBMS and the special account register to be updated).
- Employee entitlements and employee expenses transfer at the date on which the staff transfers become effective under the PS Act or similar legislation.
- Other revenues, expenses, assets and liabilities transfer at the date agreed between the gaining and losing entity, subject to obtaining any third party approvals that are necessary for control to pass between the gaining and losing entity (it is expected that this will be documented in a Memorandum of Understanding (MoU) between the two entities).

Responsibility for related assets/liabilities

11. Responsibility for related assets/liabilities and revenue/expenses should be aligned. Examples include:

- the timing of transfer of employee entitlements and the assumption of responsibility for employee expenses;
- the timing of transfer of assets and the recognition of depreciation; and
- the timing of transfer of appropriation and appropriation receivable.

Application to administered items

12. Administered items present a particular issue in that they are explicitly not subject to the control of any particular entity, but are 'managed' by an entity on behalf of the government. Nevertheless, the PGPA Act (and AASB 1004) does not make a distinction between administered and departmental items and places responsibility for all items with those who have 'custody'. In most cases this is the Accountable Authority of the losing entity. Accordingly, the application of the principles to administered items should be based on legal requirements and who currently has custody, applying the approach that custody does not change until either there is a legal mandate to do so or there is agreement between entities. In other words, the above principles also apply to administered items.

Practicalities

13. The principles set out above can result in a range of different dates. Implementation of the financial consequences of MoG changes not previously announced can be considerably simplified if gaining and losing entities approach it from the following perspective:
    - Immediate attention to the consequences of those items that transfer immediately, such as delegations for special appropriations and targeted use of drawing rights;
    - Agreement on a set (future) date at which all other items will be transferred;
    - Documentation of the agreement (e.g. a MoU); and
    - Communication of relevant matters to Finance such as changes in responsibility for special accounts and access to appropriations through CBMS.
14. Documentation of the agreement is an important evidentiary step to clarify accountability, to prevent subsequent misinterpretations, and to provide evidence for use in the audit process.
15. The documented MoU might also deal with the transfer of other rights and responsibilities that are not recorded as assets and liabilities such as obligations under legal agreements, responsibility for intellectual property etc.

PGPA Act section 75 determinations

16. section 75 does not apply to
    a. corporate Commonwealth entities and Commonwealth companies, nor
    b. special appropriations.
17. A determination made by the Minister for Finance (Finance Minister) under section 75 of the PGPA Act details amendments to the annual Appropriation Acts as a result of a transfer of functions from one entity to another.

18. Each determination will state the commencement date on which the amendments will commence. For practical reasons, it might be administratively easier for reporting purposes to have a section 75 determination take effect on a particular date, such as the beginning of a month, rather than the date it is signed or registered.

19. This Guide is intended to assist entities in calculating the agreed amount to transfer. Entities should also reference guidance in relation to the costing of departmental activities as documented in the Estimates Memorandum on costing departmental expenses in NPPs.

Annual appropriations

Departmental appropriations

20. Departmental appropriations are comprised of:

- *Ordinary operating costs* such as salaries, supplier costs, accruing employee entitlements, and operational expenditure excluding depreciation.

- *Departmental Capital Budgets (DCBs)* for the replacement of minor assets valued at $10 million or less, as well as costs eligible to be capitalised.

21. In determining the amount of appropriations to be transferred, the following should be taken into account:

- the amount of current year expenditure incurred by both entities; and

- the amount of appropriations from prior years retained by the transferring entity to cover liabilities accrued and assets consumed in those years.

22. Particular care must be exercised on the issues of transferring amounts for asset funding, employee entitlements and appropriations receivable.

23. The calculation required for PGPA Act section 75 transfers is set out in **Appendix 1**.

Other types of annual appropriations

24. For either of these types:

- *Administered Expenses*, and

- *Specific Purpose Payments to the States and Territories*,

annual administered operating appropriations are provided for each entity outcome with respect to a particular financial year. The transfer of unspent balances is subject to the level of appropriations available.

25. For any of these types:

- *Equity injections*, and

- *Loans*,

the amount of the unspent appropriation to be transferred should be determined having regard to the intended use of the appropriation against the functions transferred.

Discontinued operations

26. Where a function is to be discontinued, the drawdown schedule of the responsible entity should be reduced by the amount that would otherwise have been allocated to a gaining entity.

27. If an entity has already drawn down any part of moneys attributable to discontinued operations, a liability should be recognised and revenues from government should be reduced accordingly. The liability will be extinguished by making a cash transfer to the Official Public Account.

Disclosure requirements

28. The Commonwealth Entities Financial Statements Guide outlines the reporting requirements for outcomes (Chapter 47) and appropriations (Part I). Disclosure is required as per PRIMA Forms.

Appendix 1

Generic Calculation of the amount to be transferred under PGPA Act section 75

Note: The amount of appropriation retained by the transferring entity must not be less than the amount spent by that entity; otherwise they could be in breach of the Appropriation Act and the Constitution. This situation may arise, for example, where prepayments are significant.

Step 1 Calculation of current year appropriation transfer

The balance of the current year departmental appropriation at transfer date[1] is calculated as follows:

Departmental Appropriation for current year outputs
Less **Expenditure incurred by the transferring entity to date of transfer**

Expenditure to date of transfer

A transferring entity's financial system may not be capable of accurately measuring the expenditure incurred from 1 July to transfer date. If this is the case, expenses can be used as the starting point for calculating the expenditure to date.

(a) If expenditure is not uniform throughout the period the amount is calculated as follows:

Total expenses from 1 July to the date of transfer
Less *Non-cash expenses (e.g., depreciation/amortisation/make good expenses)*
Less *Expenses recoverable from sales under PGPA Act section 74 agreements*
Add *Increases in assets to date of transfer (e.g., asset/investment additions)*
Add *Reductions in liabilities to date of transfer*

(b) The alternative method, which can be used if expenditure has been incurred on an even basis, is as follows:

$$Departmental\ Appropriation \times \left(\frac{Days\ from\ 1\ July\ to\ date\ of\ transfer}{365}\right)$$

Apportioning the balance of the appropriation

Once the balance of the current year departmental appropriation is ascertained, it will be necessary to allocate that amount between the transferring and gaining entities according to their changed functions. The amount attributable to the gaining entity can be estimated as follows:

$$Balance\ of\ appropriations\ at\ date\ of\ transfer \times \left(\frac{No.\ of\ staff/consultants\ transferred}{Average\ total\ no.\ of\ staff/consultants\ of\ transferring\ entity}\right)$$

Note: This formula may need to be amended if the staffing/consultancy ratios in the transferred function differs from the average of the transferring entity, or if the appropriation can be based more accurately on

[1] For the purpose of this Appendix, transfer date means the commencement date specified in the section 75 determination.

requirements other than labour (e.g. the transferred function has a greater/lower use of capital compared to the rest of the transferring entity).

Step 2 Calculation of cash payments related to prior year appropriation

Cash payments to date of transfer
Less **Expenditure incurred by the transferring entity to date of transfer** [in Step 1]

Cash payments could relate to prepayments/payments for accrued expenses, or be paid from current year or prior year appropriations.

Step 3 Calculation of prior year appropriation transfer

Prior year appropriation receivable
Less **Cash payments for prior year expenses to date of transfer** [per Step 2]

Prior years' appropriations

The gaining entity will be entitled to unspent prior year appropriations relating to, for example, accrued employee liabilities and unspent asset funding on assets that are transferred.

These accrued amounts would have been appropriated for the period from 1 July 1999 (the commencement of the accrual financial framework) to 30 June of the year preceding the year of the restructure.

Apportioning prior years' appropriations

As discussed at Step 1, unless a transferring entity's systems are capable of accurately apportioning the funds, it will be necessary to estimate that amount. For example, entities could use employee numbers transferred to allocate prior years' appropriation receivable.

$$\mathit{Prior\ years'appropriation\ receivable} \times \left(\frac{\mathit{No.of\ staff\ transferred}}{\mathit{Average\ total\ no.of\ staff\ of\ transferring\ entity}}\right)$$

Note: Where the staffing ratios in the transferred function vary from the transferring entity's average or if the appropriation would be more accurately apportioned if based on capital rather than labour requirements, both entities will need to negotiate and apply an amended/alternate, equitable formula.

Step 4 Calculation of total appropriation transfer

Current year appropriation to be transferred [per Step 1]
Add **Prior year appropriation to be transferred** [per Step 3]