



## Resource Management Guide No. 419

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

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### **Contact us**

Questions or comments about this guide should be directed to:

Public Management Reform Agenda  
Department of Finance  
John Gorton Building  
King Edward Terrace  
Parkes ACT 2600

Email: [pmra@finance.gov.au](mailto:pmra@finance.gov.au)

Internet: [www.pmra.finance.gov.au](http://www.pmra.finance.gov.au)

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 principles and/or requirements are set out as things entities and officials 'should consider' doing.

## 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 classified as 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 the 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](http://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](http://www.federalfinancialrelations.gov.au).

Enquiries regarding payments made under the FFR framework should be directed to the Department of the Treasury (Treasury) (email: [State.Payments@treasury.gov.au](mailto: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 to local government should be directed to [cope@finance.gov.au](mailto:cope@finance.gov.au).

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

Enquiries about the CGRSs (which is only applicable to non corporate Commonwealth entities under the *Public Governance, Performance and Accountability Act 2013* and is available at <http://www.finance.gov.au/resource-management/grants/>) should be directed to [grants@finance.gov.au](mailto:grants@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 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 payment/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 to local government.
- **The nature of transactions:** Second, the nature of transaction helps to determine whether a payment to the 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 those schools. Their classification as a payment through the States derives from the fact that non-government schools are established by the States, 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 associated transfer payments. COPEs may be paid to other levels of government, 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 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, comprising:
    - National Specific Purpose Payments (NSPPs) 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 subject to the CGRGs.

### **Example1 COPE\***

*Case:* In order to support older people who need care, the Government decided to fund the costs of providing a humanoid 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, ongoing operations, upgrade and maintenance. State governments were selected as one of many service providers in the tender process.

*Advice:* The programme will be classified as 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.

### **Example 2 Payments to or through the states\***

#### Payments to the states:

*Case:* The Government will provide \$200 million 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 \$200 million would be classified as a 'Payment to the States' and will be subject to FFR framework and published in the Budget Paper 3. The rationale for this 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. Nature 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 'Payments through the states' classification would be used in the following situations:

- Where the states have the 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 payment for non-government schools;
- Indirect Local Government 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.

### **Example 3 Payments direct to local governments\***

*Case:* The Government will provide \$100 million 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 be subject to the CGRGs as:

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 case scenarios in these examples are hypothetical and for illustration only.

**Classifying Commonwealth Payments for Specific Purposes to the other levels of governments and Commonwealth Own-Purpose Expenses – Decision tree**

