

<b>Treasurer's Instruction No</b>	<b>207</b>
<b>Title</b>	<b>Administrative Restructuring of Agencies</b>
<b>Effective date</b>	<b>1 April 2006</b>
<b>Objective and Background</b>	<b>To set out the requirements for the classification of non-reciprocal transfers between agencies</b>
<b>Last Reviewed Date</b>	<b>20 April 2007</b>

*This Instruction was previously known as Treasurer's Instruction No 1009 – Non-Reciprocal Transfers.*

*Black letter (or bold) items within these Instructions are mandatory and other plain font items are instructional or for the purpose of providing guidance only.*

## **BACKGROUND**

The purpose of this Treasurer's Instruction is to provide guidance on the classification of non-reciprocal transfers from agencies to other agencies. A non-reciprocal transfer occurs where the transferor does not receive equal value in exchange for the transfer.

Non-reciprocal transfers include:

- transfers arising from State Service restructuring following an Administrative Arrangements Order; and
- voluntary transfers between agencies.

Agency restructuring as a result of an Administrative Arrangements Order will normally result in the transfer of assets and liabilities between agencies for nominal or no consideration. It can also involve the termination of an agency, or the creation of a new agency. Agencies may also enter into voluntary agreements to transfer net assets as a result of transferring responsibility for a service or activity.

This Instruction has been prepared in accordance with the provisions of Urgent Issues Group Abstract UIG 38 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* (UIG 38). UIG 38 sets out the provisions for classifying a transfer of net assets between State Sector entities.

How a transfer is classified has implications for reporting of the Headline Budget Measures. It is important that there is a clear basis for classification of all transfers for budget and outcomes reporting.

Paragraph (3) of Treasurer's Instruction 1002 *Goods and Services Tax* explains the Goods and Services Tax (GST) implications of transfers arising from State Service restructuring following an Administrative Arrangements Order, or from voluntary transfers between agencies.

## **TRANSFERS AS A RESULT OF STATE SERVICE RESTRUCTURING FOLLOWING AN ADMINISTRATIVE ORDER**

- (1) All transfers of assets and liabilities as a result of the restructuring by Administrative Arrangements Order are to be designated as a “contribution by owner”.**

Transfers as a result of an administrative restructure will generally not have an equity instrument or formal agreement to provide evidence of an equity transfer. Paragraph (1) provides a formal designation for all future agency restructures, which satisfies UIG 38 requirements. As a result, all transfers must be treated as a contribution by owner.

Administrative restructures have been designated as contribution by owners as they are non-discretionary in nature and result from the decisions of the Government as owner. The Government has the right to sell, transfer or redeem the net assets of agencies at any time. Accordingly, it is appropriate to designate such transfers as a contribution by owners and record the transfer directly to accumulated funds within equity in the Balance Sheet.

### **Transfer Date**

- (2) The commencement date for the Administrative Arrangements Order is the effective date for the restructure.**
- (3) Where the transfer date takes effect part way through a month, the effective date for the valuation of net assets is deemed to be the end of that month, adjusted for any material transactions that may have occurred in the time between the transfer date and the end of the month.**
- (4) Agencies must seek Treasury approval to adopt an alternative effective date, such as 1 July, for the transfer of net assets. The request shall advise why the proposed date will not have a material impact on financial reporting.**

*AAS 29 Financial Reporting by Government Departments* states that, where activities are transferred from one agency to another agency, the transferee agency should not recognise expenses and revenues which arose prior to the transfer. This is because those expenses and revenues did not arise as a result of activities conducted by the transferee agency.

For practical reporting purposes it may be appropriate to adopt an alternative effective date for the transfer of net assets, such as 1 July. For example, where the restructure occurs early in the financial year, or the transfer involves an immaterial level of revenue, expenses and net assets, the adoption of 1 July may have no material impact on financial reporting for the affected agencies and simplify the transfer process. The Secretary of the Department of Treasury and Finance may approve an alternative date, such as 1 July, in consultation with the Auditor-General, where it can be demonstrated that there is no material impact on financial reporting.

## Disclosure Requirements

- (5) **The balance of net assets transferred must be recorded directly to accumulated funds within equity by both the transferor and transferee agencies.**
- (6) **The book value of net assets as at the transfer date must be used as the valuation basis for both the transferor and transferee agencies.**
- (7) **The financial statements for both the transferee and transferor agencies must disclose, by way of note:**
  - (a) **date of the transfer;**
  - (b) **details of the Outputs and activities which have been assumed or relinquished;**
  - (c) **the agency that will be assuming or relinquishing the Outputs and activities;**
  - (d) **the amount of transactions and/or balances transferred from the transferor agency/ received by the transferee agency;**
  - (e) **expenses and revenues attributable to those Outputs and activities for that reporting year, up to the date of transfer; and**
  - (f) **for the transferee agency only, disclosure of all expenses and revenues for the reporting period for all transferred activities for which the agency is responsible.**
- (8) **Prior year comparatives must not be adjusted or otherwise aligned to reflect the restructure. A note to the effect that the comparative figures have not been adjusted must be included in the statements.**

An illustration of the required note disclosure is provided the model statements presented in Treasurer's Instruction 206 *Presentation of Annual Financial Statements*.

## PARS Cash and Accrual File Requirements

- (9) **A PARS cash and accrual file containing finalised transactions and balances for the period, based on the original agency structure, must be provided from all agencies by the fifth working day following the month of the restructure.**
- (10) **The book value of net assets contained in the PARS file must be used as the initial basis for transfer between agencies.**

Under the TFRS Mandatory Data requirements, agencies must submit summary accrual files by midnight of the fifth working day following the end of a reporting month. Reporting months are: September, November, December, February, March, May and June. A PARS accrual file will be required from all agencies in the month following a restructure, based on the original agency structure, regardless of whether it is a reporting month.

The financial information provided to PARS in accordance with paragraph (9) must contain the finalised transactions and balances. Treasury will use this information to assist in the transfer process between agencies.

The transition to the new agency structures may take some time, depending on the size and nature of the restructure. Therefore, Treasury will liaise with the affected agencies and advise of the timing requirements for submission of PARS files in accordance with the new agency structures.

## **VOLUNTARY TRANSFERS BETWEEN AGENCIES**

- (11) All voluntary transfers of assets and liabilities between agencies, for reasons other than as a result of administrative restructuring, must be recorded through the Income Statement as a revenue/expense for the transferring agencies.**

### **Transfer Date**

The transfer date will be that agreed by the transferring agencies.

### **Disclosure Requirements**

- (12) The fair value of net assets transferred between agencies must be disclosed in the Income Statement as a revenue/expense for the transferring agencies.**

Agencies may also enter into voluntary agreements to transfer net assets or assume responsibility for the provision of a service. Transfers of assets and liabilities as a result of a voluntary transfer of net assets will generally not represent a contribution by owner. The transfer is occurring at the discretion of the agencies and does not reflect an explicit decision of the Government. As a result, the transfers are not equity in nature and have not been designated as a “contribution by owner”.

The transfer will be recorded in the Income Statement against assets assumed (liabilities transferred) and liabilities assumed (assets transferred). The disclosure requirements for these items are set out in the model statements presented in Treasurer’s Instruction 206 *Presentation of Annual Financial Statements*.