

Treasurer's Instruction No	208
Title	Contributions to State-owned Entities
Effective date	1 April 2006
Objective and Background	To classify non-reciprocal transfers from an Agency to a Government Business Enterprise, a State-owned Company or a statutory authority
Last Reviewed Date	31 January 2006

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

Please note that Treasurer's Instructions 1008 and 1009 used to make up the previous Treasurer's Instruction 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 State-owned entities. A non-reciprocal transfer occurs where the transferor does not receive equal value in exchange for the transfer.

Non-reciprocal transfers include:

- transfers that occur as a result of state service restructuring following an Administrative Arrangements Order; and
- other transfers from agencies to Government businesses or statutory authorities.

Agency restructuring as a result of an Administrative Arrangements Order will normally result in the transfer of assets and liabilities between agencies and Government businesses or statutory authorities, 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. In addition, an Agency can make a contribution to a Government business or statutory authority for a specific purpose which can be treated as either a grant payment, or an equity contribution, subject to the Treasurer's approval.

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*.

Transfers of net assets between agencies and other State Sector entities may be classified as either:

- equity contributions, which are recorded by both parties directly to accumulated funds within equity in the Balance Sheet. This represents a distribution to

owner for the transferor entity and a contribution by owner for the transferee agency; or

- grant contributions which are reported by both parties in the Income Statement, as a net expense for the transferor entity and a net revenue for the transferee agency.

UIG 38 sets out the provisions for classifying a transfer of net assets between State Sector entities. Under UIG 38, a transfer may only be recognised as an equity contribution where one of the following criteria is satisfied:

- issuance of equity instruments which can be sold, redeemed or transferred;
- a formal agreement establishing a financial interest in the net assets being transferred which can be sold, transferred or redeemed; or
- a formal designation of the transfer of net assets (or of a class of such transfers) by the transferor, or a parent entity of the transferor, as an equity contribution either before, or at the time, of the transfer.

How a transfer is classified has implications for reporting of the Headline Budget Measures. The classification will also affect the dividend and income tax equivalent calculations for Government businesses. It is important that there is a clear basis for classification of all transfers for budget and outcomes reporting.

TRANSFERS TO GOVERNMENT BUSINESSES OR STATUTORY AUTHORITIES

- (1) Contributions by an Agency to a Government Business Enterprise or State-owned Company or statutory authority must be classified as an equity contribution, where the substantial purpose of the contribution is to fund:**
 - (a) a fixed asset purchase; or**
 - (b) the repayment of a liability.**
- (2) Contributions that do not meet the equity criteria in paragraph (1) must be classified as a grant contribution.**
- (3) Where a contribution meets the equity criteria in paragraph (1), agencies must ensure the transfer is formally designated by the Treasurer as being contributed equity at or before the time of the transfer.**
- (4) A request for formal designation must be forwarded to the Secretary for submission to the Treasurer for approval. The request must advise the details of the contribution and proposed transfer date.**
- (5) Contributions must be classified consistently by both the transferor and transferee.**

Transfers from an agency to a Government business or statutory authority which are intended to directly fund a fixed asset purchase or liability repayment will constitute an equity contribution. This is consistent with the Government Finance Statistics (GFS) classification basis which is administered by the Australian Bureau of Statistics. The GFS classification basis will also apply where an agency receives a contribution from a Government Business Enterprise, State-owned Company or

statutory authority. Guidance can be sought from Treasury regarding the classification of a proposed contribution.

The provision of funding for maintenance of a fixed asset would not meet the requirements of an equity contribution and should be classified as a grant. Community Service Obligation payments are usually intended for the provision of a service and are unlikely to be classified as an equity contribution.

Contributions may be both equity and grant in nature. For example, a contribution to assist in funding loan repayment obligations may include both interest and principal repayments. In this case, the principal component should be classified as an equity contribution, and the interest component classified as a grant.