



LOCAL GOVERNMENT CODE OF ACCOUNTING PRACTICE & FINANCIAL REPORTING

SUBMISSION RELATING TO THE DISCLOSURE OF “GRANTS”, “SUBSIDIES” & OTHER PAYMENTS FROM GOVERNMENT

1. Introduction

The NSW Code of Accounting Practice was introduced concurrently with the adoption of Australian Accounting Standard AAS 27 “Financial Reporting by Local Governments” effective from 1 January 1993. Pursuant to clause 18 of the Local Government (Financial Management) Regulation 1999 the Code is a prescribed standard for the purposes of section 413 (3) of the Local Government Act 1993 (as amended).

The Code is updated regularly and the current edition includes update #9 issued May 2001. All extracts from the Code in this document have been taken from that update.

Example Note 4(e) of Appendix A2 to the Code details the format required for disclosure of Grants. Broadly, separate disclosure of General Purpose (Untied) and Specific Purpose grants, further allocated between those for Operating and Capital purposes, is required.

2. Financial Assistance Grants

These grants are distributed by the NSW Local Government Grants Commission using funds sourced from the Commonwealth Government. Although they are calculated by reference to disability/population and roads & bridges factors, Councils are completely unfettered in their use. The amounts of the disability/population and roads & bridges components of the grants are advised to Councils.

Based on a representative sample of NSW Councils (78 Councils), almost 90% disclose the full amount of these grants as *General Purpose - Operating*. The remaining Councils classify varying proportions as *General Purpose - Capital*. The percentages classified as capital grants vary from 1.9% to 33.4% of the total amount received.



We submit that the purpose of the Annual Financial Statements is to report on the transactions between the reporting entity and external parties. The nature of and conditions pertaining to the grant are identical for all Councils, and we submit that consistency in presentation should require consistent classification of identical grants under all circumstances.

We point out that this inconsistency in classification also introduces distortions into the calculation and comparison of the Debt Service Ratio as *capital* grants are excluded from the revenue base.

3. Payments administered by the Road Traffic Authority

Most payments administered by the RTA are described by them as “grants”, and are so described in information supplied to the media by the Minister and local members of Parliament. However, the accounting treatment in the books of a Council differs according to the nature of the program, and we set out some examples below.

3.1 State & National Highways

The RTA is regarded as the “owner” of the road, and hence these “grants” are treated as reimbursements to Councils for works carried out on behalf of the RTA and described as *Discretionary Fees - RTA Claims - State Roads*.

Sometimes some the works included and reimbursed within this group include works physically undertaken on a local or regional road, especially where the works relate to an intersection with a state or national highway.

Councils do not treat any of the monies received under this classification as *capital*.

3.2 Regional Roads Block Grant

The RTA makes a “grant” to Councils for the maintenance etc. of regional roads, which are regarded as being “owned” by Councils. An agreement, executed by Councils annually, specifies the types and extent of works that may be funded by the Block Grant, but in fact Councils are responsible for the costs of all necessary work on these roads, whether or not those costs exceed the amount of the Block Grant. Accordingly, these amounts are described as *Contributions* and may be *operating* or *capital* depending on the nature of the work carried out.

One result is that the proportion of the Block Grant correctly described as *capital* can vary significantly from year to year on the basis of scheduling of tasks, even though there has been no change in the terms and conditions of the provider, or the basis of calculation of the amount. And again, this imposes consequent distortions on the Debt Service Ratio.



3.3 Regional Roads “REPAIR” Program

This program provides additional funding for the construction and improvement of regional roads, and usually requires that the RTA contribution is at least matched by the recipient Council. Commonly the Council is unable to provide equal funding from independent sources, and seeks and obtains permission to allocate its share from the Regional Roads Block Grant. Any such allocation should therefore be disclosed as *capital*.

3.4 Grants for Local Roads

A characteristic of all regional roads funding is that the RTA retains the right to specify what works are undertaken on which roads. In contrast, funding for local roads may specify the nature of the works (eg construction or improvement), but a Council does not usually need to obtain concurrence on the specific roads or bridges to which the funding is applied. These amounts are disclosed as *Grants - operating* or *capital* as the case may be.

3.5 Disaster Relief Funding

Funding under State-Commonwealth disaster relief arrangements is designed to reinstate road assets to the same, part-worn, condition that existed immediately prior to the occurrence of the disaster. Under this scenario, a road that was (say) 10% worn prior to the disaster would simply be repaired, the works being treated as heavy maintenance and the funding disclosed as *operating*. However, a road that was 75% worn would be re-constructed, and the funding disclosed as *capital*.

It would also appear that the funding should also be classified as either *contributions* or *grants* depending on whether the reinstatement relates to regional or local roads.

Under the disaster relief arrangements, Councils are required to bear the first \$25,000 of reinstatement expenditure. No guidelines exist for the appropriate classification from which this share should be deducted.

3.6 Traffic Route Street Lighting Subsidy

This subsidy is based on a calculation relating to the amount of street lights (and hence the cost of operation thereof) on major traffic routes. We have identified some Councils that appear to have described these amounts as *Contributions - Operating*.

4. Bushfire Equipment Issues

Under the Rural Fire Service funding arrangements, Councils receive issues of equipment each year in accordance with a schedule advised during the second quarter of the year. The conventional treatment has been for these to be treated as a non-cash *capital grant* item, but some variation in treatment has been noted in recent years.

For one Council in a recent year, 24.2% of equipment issues related to uniforms & badges while a further 43.4% related to equipment and replacement items of which the largest individual value was \$336.00.



There is clearly excessive scope for individual interpretation - and hence significant inconsistency - between Councils.

5. Library Special Grants

These grants have been made for a number of years, usually with a condition that limits their purpose to capital acquisitions. In some instances, the total of the grant has been below the capitalisation threshold of a Council, and in others the actual items acquired (while meeting the criteria of the grant) have been below the capitalisation threshold.

The Code does not provide guidance of the preferred treatment, again leaving scope for significant inconsistency between Councils.

6. Other Grants

Because the terms and conditions of each grant are specific to the grant, the types of expenditure entitled to be claimed vary widely. The person responsible for preparing the Annual Financial Statements may not be aware of the detailed components of each grant received, leading to further inaccuracies. This is particularly the case with “start-up” type grants.

Because *capital* amounts are excluded from the calculation of *Debt Service Ratio*, one of the key financial indicators could vary significantly between Councils based on individual policies and personal preferences.

7. Note 4 Disclosures

Councils are encouraged to group *Grants and Subsidies* receipts in Note 4 (formerly Note 3) according to type. (Note 2 provides disclosure according to function.) A review of Council Annual Financial Statements shows differing levels of success in meeting this aim, with some Councils disclosing the names of the government organisation making the payment, and many more effectively duplicating the information disclosed in Note 2, but in greater detail.

8. Summary

We have sought to demonstrate that the current disclosures of different types of payments received from other levels of government can vary widely depending on Council policies and the personal preferences of Council staff.

We submit that all amounts paid by a government organisation subject to identical terms and conditions should be disclosed identically by all Councils.

We submit that information relating to the likelihood of future funding would be far more valuable to a user of the Annual Financial Statements than the existing range of variable interpretations.



9. Submission

We submit that all amounts received from other levels of government should be disclosed as “*Amounts received from other levels of government*”, with further disclosure of *Recurrent* and *Non-Recurrent* amounts. Other than the differentiation between *Recurrent* and *Non-Recurrent*, this is the disclosure given in AAS 27 “Financial Reporting by Local Governments”, and is commonly adopted in other jurisdictions.

We would define *Recurrent* amounts as those for which the Council has a reasonable expectation that a payment, of broadly similar amount and for similar purposes, will be made in each of the 3 succeeding reporting periods (ie. the life of the current Management Plan).

Given that appropriate disclosure of the functional classification of these amounts is made in Note 2, we suggest that disclosure of *Recurrent* and *Non-Recurrent* amounts made on the face of the *Statement of Financial Performance* would be adequate, and that no further dissection of these amounts should be mandatory.

We submit that *Contributions* received from other sources should be similarly classified between *Recurrent* and *Non-Recurrent*, although we consider it likely that additional disclosures of the nature of the *Contributions* in Note 4 will often be necessary.

We submit that the *Debt Service Ratio* should be calculated **including** *Recurrent* but **excluding** *Non-Recurrent amounts received from other levels of government*. In our opinion, this would provide a more consistent and valid measure of a Council’s debt commitment than the existing measure.

10. Examples

We set out below examples of classifications for the various types of grants referred to above (although please note that we have made assumptions as to whether particular items meet the criteria for *Recurrent* as shown above. All amounts would be shown as **Amounts received from Other Levels of Government**).

2.	Financial Assistance Grants	Recurrent
3.1	State & National Highways	Recurrent
3.2	Regional Roads Block Grant	Recurrent
3.3	Regional Roads “REPAIR” Program	Non-Recurrent
3.4	Grants for Local Roads	Non-Recurrent
3.5	Disaster Relief Funding	Non-Recurrent
3.6	Traffic Route Street Lighting Subsidy	Recurrent
4	Bushfire Equipment Issues	Recurrent
5.	Library Special Grants	Recurrent
6. (eg)	HACC Grants	Recurrent