

2B Departmental and Administered Items

Policy

- 2B.1 This Policy applies when determining the classification of an item as 'departmental' or 'administered' for the purpose of preparing accrual-based financial statements (i.e. for all reporting other than in the appropriation and Special Account disclosures notes required by Policies 2C and 2E of this Schedule).
- 2B.2 Subject to a reclassification by the Finance Minister of an item under Clause 2B.6 of this Policy, an amount explicitly described in an Act (including an annual Appropriation Act) as being 'departmental' or 'administered', is classified, for the purposes of accrual reporting in the financial statements as described in the Act.
- 2B.3 All amounts appropriated as State payment items (Specific Payments to the States and Territories) in the annual Appropriation Acts are to be classified as administered items for accrual reporting purposes in the financial statements.
- 2B.4 Other than as provided in Clauses 2B.2 and 2B.3 of this Policy, all other assets, liabilities, income, expenses, cash flows, contingencies and commitments will be classified as 'departmental' or 'administered' according to the following rules:
- (a) 'Departmental items' are those which the entity controls that are applied to the production of the entity's own outputs;¹ and
 - (b) 'Administered items' are those that the entity does not control and which are subject to highly prescriptive rules or conditions established by legislation, or Australian Government Policy, in order to achieve Australian Government outcomes.
- 2B.5 Specific reporting requirements apply in relation to trust moneys (refer to Policy 3C of this Schedule).
- 2B.6 Approval for classifications of new items and reclassifications of existing items is to be obtained from the Finance Minister or a person authorised by the Finance Minister.

Explanatory Notes

Control

- 2B.1.1 In the absence of a clear decision by Government, determining whether an item is departmental or administered relies on establishing whether the entity or the Australian Government controls the item concerned.
- 2B.1.2 For further discussion refer to paragraphs 10.5.9 to 10.5.17 of AAS 29 *Financial Reporting by Government Departments*.
- 2B.1.3 Control is assessed in a practical and effective sense having regard to the substance of the situation, rather than in strictly legal terms. For example, an entity may have legal but not the *effective* capacity to buy or sell an asset. However, the legal documents may indicate where control lies. Ultimately, the intent of Government should be reflected in the classification of an item as either departmental or administered.

¹ Australian Accounting Standard AAS 29 'Financial Reporting by Government Departments' paragraphs 6.3.11 and 6.3.12.

Departmental Items

2B.1.4 Departmental items are controlled by entities and used in producing the entities' outputs or otherwise classified by Government as departmental. These items include:

- (a) revenues received by the entity from appropriations for outputs;
- (b) revenues received from independent sources in payment for outputs;
- (c) direct costs of producing outputs (e.g. employees, supplies and the depreciation of assets used in producing those outputs); and
- (d) any indirect (overhead) costs of producing outputs.

2B.1.5 Appropriations for departmental outputs are controlled by the Agency or Authority. The Chief Executive or Directors, as the case may be, have the capacity to use these appropriations in the manner they consider appropriate to best achieve the objectives of the entity, within the purpose for which that amount was appropriated.

Administered Items

2B.1.6 Administered items are those items controlled by the Australian Government but managed or overseen by entities or otherwise classified by the Government as administered. They may be subject to conditions and eligibility rules established by legislation or Australian Government policy, or involve specific decisions by Ministers. These largely comprise the following:

- (a) expenses from subsidies, grants and benefit payments;
- (b) revenues from taxes, fees, fines and excise;
- (c) liabilities relating to public debt and employee superannuation;
- (d) assets relating to tax receivables, loans to other governments and investments in controlled entities; and
- (e) State payment items (Specific Payments to the States and Territories) that are appropriated to the entity by an annual Appropriation Act.

2B.1.7 In relation to:

- (a) administered income – the entity managing the item must not be able to utilise the funds to achieve its own objectives;
- (b) administered expenses – the expenses must not form part of the cost of operating the entity in pursuit of its own objectives;
- (c) administered assets – the entity must not be able to utilise the assets to achieve its own objectives; and
- (d) administered liabilities – the liabilities must not relate to the entity's own activities but be incurred on behalf of the Australian Government.

Determining the Classification of an Item

2B.1.8 The following indicative questions should be considered in determining whether an item is departmental or administered. Note: this classification process also applies to Special Public Money (as defined by section 16 of the *Financial Management and Accountability Act 1997*).

1. Is there a Cabinet decision or responsible Minister approval supporting the activity? If yes, does it state or indicate whether it is to be treated as departmental or administered? Will there be enabling legislation in place? What will the legislation state about control, reporting requirements, approvals, etc? Does discussion otherwise indicate where control lies?

2. Has a Special Account been established?
If yes, does the determination or legislation establishing the special account indicate or provide whether amounts credited to the Account are to be classified as departmental or administered?
3. Is there a direct relationship, other than a policy relationship, between the activity being considered and the entity's departmental outputs? If yes, then it is potentially an activity that involves departmental items. If no, then it is potentially administered.

Note: Where departmental outputs are to be delivered by a third party through contractual arrangements, this will not automatically mean the item will be classified as administered. This is because the entity may still retain ultimate control over the nature and delivery of the relevant outputs.
4. Did the entity or the Australian Government provide detailed direction in relation to the activity being considered?

Grants made by an entity may be administered or departmental in nature. They will be administered where the grant eligibility criteria is mandated by the Australian Government and the entity has no discretion as to how the funds provided for such grants are to be used. Alternatively, grants may be departmental where the entity has discretion concerning the allocation of funds to such grants, and where the grants are one of several methods by which the entity aims to achieve its outputs.
5. Will the activity be undertaken on behalf of the entity (as part of its day-to-day operations) or is it a specific direction from the Australian Government for whole-of-government application (e.g. superannuation)?
6. Will the entity be able to utilise the income and/or assets:
 - (a) to increase its own assets or decrease its own liabilities; or
 - (b) to achieve its own objectives/departmental outputs;without further authorisation and direction from the Australian Government?
7. Will the entity be able to incur expenses and/or liabilities:
 - (a) to decrease its own assets or increase its own liabilities; or
 - (b) to achieve its own objectives;without further authorisation and direction from the Australian Government?
8. Will the entity be able to deny or regulate access by others to the assets of the activity?

Approval for new classifications and reclassifications

2B.1.9 Prior to:

- (a) a new item being classified as departmental or administered; or
- (b) an old item being reclassified;

as part of the costings approval process prior to submission to Cabinet, written approval must be obtained from the Finance Minister or a person authorised by the Finance Minister.

Reclassification of an item

2B.1.10 The key circumstances giving rise to reclassifications would be:

- (a) a change in legislation, decision by the Portfolio Minister or a Cabinet decision, i.e. a change in control; or

- (b) a review of circumstances which indicate that past classifications may not have been soundly based.

2B.1.11 If an entity considers that an activity needs to be reclassified, the following actions should be taken:

- (a) review all the initial documents that were used to support the original classification (e.g. Cabinet decision, Prime Minister's approval, etc);
- (b) review any other subsequent documents that may indicate that reclassification is required;
- (c) discuss with Finance and the ANAO and provide them with the relevant documents;
- (d) obtain approval from the Chief Executive (or Directors) and Portfolio Minister of the entity; and
- (e) submit the signed approvals to Finance for approval from the Finance Minister or a person authorised by the Minister.

2B.1.12 Reclassification of an item may result in a change in accounting policy and hence require restatement of comparative data and disclosure in the notes of entities' financial statements, in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Default position

2B.1.13 If there is still uncertainty after considering the above matters, the following will normally be considered to be departmental, unless the contrary can be demonstrated:

- (a) employee expenses and associated assets and liabilities;
- (b) acquisition of goods, services and non-financial assets and associated assets and liabilities; and
- (c) cash from departmental output appropriations and associated financial instruments.

2B.1.14 All other items would be considered administered, unless the contrary can be demonstrated.

Expected revision to departmental and administered classifications

2B.1.15 The Government has decided to revise the interpretation of control in relation to AAS 29. It has directed Finance, in consultation with Agencies, to develop criteria for classifying resources as departmental or administered.

2B.1.16 An interdepartmental working group has developed a draft revision and, following further consultation, will report to government later this financial year. Following further consideration by Government, this Schedule will be revised and all agencies will be required to reclassify their resources in accordance with the revised orders.