

## Financial and Annual Reporting requirements arising from personnel service arrangements

**This Circular outlines financial and annual reporting requirements arising from personnel service arrangements. The Circular applies to all entities required to prepare general purpose financial statements under the *Public Finance and Audit Act 1983*.**

### Summary:

This Circular outlines the financial and annual reporting requirements where personnel services are provided by departments or other public service agencies, as listed in the *Government Sector Employment Act 2013* (GSEA) Schedule 1, to statutory bodies.

Australian Accounting Standards (AAS) and the *Public Finance and Audit Act 1983* (PFAA) requires general purpose financial statements for all reporting entities, including departments, other public service agencies and statutory bodies. However, financial and annual reporting disclosure requirements will differ depending on the personnel service arrangement. This Circular clarifies three common types of relationships in the NSW Public Sector. Where an agency's personnel service relationship is not covered by this Circular, the agency should contact Treasury.

This Circular withdraws NSWTC 11/19 *Financial and Annual Reporting Requirements arising from personnel service arrangements*. The main changes since NSWTC 11/19 reflected in this Circular are:

- the *Public Sector Employment and Management Act 2002* (PSEMA) was repealed and replaced by the GSEA. Accordingly, this Circular refers to terminology used in the GSEA, and
- AASB 10 *Consolidated Financial Statements* (AASB 10) replaced the control and consolidation guidance in AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*. Accordingly, this Circular refers to terminology and concepts used in AASB 10.

Despite these changes, application of this Circular by many agencies will result in the same reporting outcomes as previously resulted from application of NSW TC 11/19.

This Circular is issued for financial years beginning on or after 1 July 2014. It is issued as a Direction in accordance with PFAA sections 9 and 45E and applies to all entities required to prepare general purpose financial statements under that Act. In addition, other directions, determinations and exemptions are made in this Circular. This includes directions to certain entities to provide additional information as part of their annual report, in accordance with the Annual Reports (Statutory Bodies) Act 1984 (ARSBA) section 15(1) and the Annual Reports (Departments) Act 1985 (ARDA) section 18(1).

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## 1. Introduction

The purpose of this Circular is to outline the financial and annual reporting implications that result from typical personnel service relationships in the NSW Public Sector.

Many statutory bodies<sup>1</sup> do not directly employ staff. Instead, public service agencies established under the GSEA<sup>2</sup> provide personnel services to those statutory bodies. There are a number of different personnel service relationships through which statutory bodies receive personnel services:

- 'Special purpose staff agencies' i.e. where such an agency's only function is to provide staff for a particular statutory body. Most agencies in GSEA Schedule 1, Part 2 and Part 3 are special purpose staff agencies.
- Departments (as defined under PFAA section 45A), with normal departmental functions, that also provide personnel services to one or more statutory bodies. These are listed in GSEA Schedule 1, Part 1.
- Staff agencies that provide only personnel services, but which provide these services to more than one statutory body.

The financial and annual reporting disclosure requirements will differ depending on the relationship.

## 2. Application

This Circular is issued for financial years beginning on or after 1 July 2014. It is issued as a Direction in accordance with PFAA sections 9 and 45E and applies to all entities required to prepare general purpose financial statements under the PFAA.

In addition, this Circular makes other directions, determinations and exemptions, as follows:

- Directs certain agencies to provide additional information as part of their annual report, in accordance with ARSBA section 15(1) and ARDA section 18(1).
- Determines the financial year for certain entities, where the related statutory body has a financial year end other than 30 June, in accordance with PFAA section 4(1A).
- Exempts special purpose staff agencies from applying the *Financial Reporting Code for NSW General Government Sector Entities* (Financial Reporting Code).

This Circular withdraws and supersedes NSWTC 11/19 *Financial and Annual Reporting Requirements arising from personnel service arrangements*. The main changes since NSWTC 11/19 reflected in this Circular are:

- the *Public Sector Employment and Management Act 2002* (PSEMA) was repealed and replaced by the GSEA. Accordingly, this Circular refers to terminology used in the GSEA.
- AASB 10 *Consolidated Financial Statements* replaced the control and consolidation guidance in AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*. Accordingly, this Circular refers to terminology and concepts used in AASB 10.

Despite these changes, application of this Circular by many agencies will result in the same reporting outcomes as previously resulted from application of NSW TC 11/19.

This Circular should also be read in conjunction with NSWTC 15/05 *Financial reporting requirements for NSW Government entities including those affected by restructures*.

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<sup>1</sup> For the purposes of this Circular, Treasury has made the assumption that most statutory State Owned Corporations directly employ their own staff. Therefore references to 'statutory bodies' in this Circular excludes statutory State Owned Corporations.

<sup>2</sup> There are also other similar employment related legislative requirements in other Acts; e.g. in the *Health Services Act 1997*. The principles in this Circular are also applicable to these other similar employment arrangements.

### 3. Financial Reporting

In accordance with AAS, PFAA and NSWTC 15/05, all reporting entities are required to prepare financial statements. Reporting entities include departments (under PFAA section 45A) and statutory bodies (under PFAA section 39)<sup>3</sup>.

In situations where a staff agency provides personnel services to only one statutory body and has no other functions (i.e. it is a 'special purpose' entity), the statutory body controls the staff agency in accordance with AASB 10 (refer to NSWTC 15/05). Thus, financial statements must be produced for the:

- statutory body (parent)
- special purpose staff agency (controlled entity), and
- economic (consolidated) entity.

An agency is not a special purpose entity where it provides personnel services to more than one statutory body and / or where the entity has other functions. These agencies are unlikely to be controlled by the statutory body to which they provide personnel services. However, these agencies may or may not control the statutory bodies to which they provide personnel services. Agencies in such circumstances should assess control using the AASB 10 principles and NSWTC 15/05. The principles require significant judgement and if it is unclear whether your agency controls the statutory body, please contact your Treasury Analyst.

A flow chart summarising the financial reporting implications is attached at Appendix A.

Sections 3.1 and 3.2 outline requirements when preparing financial statements by departments, other public service agencies and statutory bodies with personnel service arrangements. Where there is a control relationship between the department / other public service agency and the statutory body, consolidated financial statements must also be produced. As such, where there is a control relationship, references to the 'department or other agencies' and 'statutory body' in those sections must be read as references to the parent or controlled entity (not the consolidated entity).

#### 3.1 Departments or other public service agencies that provide personnel services (including special purpose staff agencies)

Typically, personnel services are provided by departments and / or staff agencies to statutory bodies. These departments and agencies are the employers of these staff and accordingly must:

- prepare financial statements in accordance with the PFAA (including special purpose staff agencies)<sup>4</sup>.
- recognise and disclose:
  - employee related expenses and liabilities<sup>5</sup> (unless assumed by the Crown) in relation to all staff employed by the department or staff agency, including employees provided as personnel services, and
  - personnel service revenue<sup>6, 7</sup> and receivable (unless assumed by the Crown) in relation to employees of the department or staff agency provided as personnel services to statutory bodies.

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<sup>3</sup> Controlled entities of departments and statutory bodies are also covered by these PFAA sections.

<sup>4</sup> Treasury is aware that there are some agencies that have no employees. In these circumstances, where the agency has no other functions, it does not satisfy the 'reporting entity' concept (see NSWTC 15/05) and therefore no financial statements are required. Appendix A is not applicable in these circumstances as Appendix A assumes that the agency has employees.

<sup>5</sup> Employee related liabilities are calculated in accordance with NSWTC 14/04 and NSWTC 14/05 (or replacement NSWTCs) and disclosed in accordance with the *Financial Reporting Code*, where applicable.

<sup>6</sup> Entities subject to the *Financial Reporting Code* must disclose the 'personnel services' revenue on the face of the Statement of Comprehensive Income.

<sup>7</sup> This Circular assumes that personnel services are not provided free of charge.

- account for superannuation and long service leave (LSL) assumed by the Crown, in accordance with NSWTC 14/04 and NSWTC 14/05 (or any replacements to these NSWTCs), as an expense and revenue on assumption of the liability.

Entities may also choose to disclose a brief description of their personnel service arrangements.

### **3.2 Statutory bodies that receive personnel services**

Statutory bodies that receive personnel services must:

- prepare financial statements in accordance with PFAA requirements
- recognise and disclose personnel services expense<sup>8</sup> (i.e. rather than employee related expenses) and liability (unless assumed by the Crown). In addition, where the statutory body does not control, or is not controlled by, the department / staff agency that provides the personnel services, it must disaggregate the personnel service expense in the notes into its various components (i.e. salary, wages, LSL, superannuation etc.) for transparency reasons (even though it does not employ staff).
- account for superannuation and LSL assumed by the Crown, as part of the personnel services expense and revenue as resources received free of charge.

Statutory bodies may also wish to disclose a brief description of the personnel service arrangements.

## **4. Annual Reporting**

The annual reporting requirements for departments or public service agencies that provide personnel services and statutory bodies that receive personnel services are outlined below.

### **4.1 Departments or other public service agencies that provide personnel services**

Departments or agencies that provide personnel services must prepare annual reports where the department or agency is listed in PFAA Schedule 3<sup>9</sup>. Special purpose staff agencies are not listed in the PFAA schedules and therefore are not required to prepare separate annual reports.

Where such a department/agency is required to prepare an annual report, then this report must include the financial statements for that department/agency (parent), each controlled entity and the economic (consolidated) entity.

Where a department controls a statutory body that it provides personnel services to, this Circular requires that:

- The annual report of the department must disclose statutory information regarding employee related matters (as summarised in Treasury's Annual Report Compliance Checklist<sup>10</sup>) for all employees, including employees that provide personnel services to controlled entities.
- These disclosures must be made for employees in total and disaggregated by the controlled entity that receives the personnel service.

Where a department provides personnel services to a statutory body, but does not control the statutory body, this Circular requires that:

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<sup>8</sup> Entities subject to the *Financial Reporting Code* must disclose the 'personnel services' expense on the face of the Statement of Comprehensive Income.

<sup>9</sup> Where an agency is not listed in the PFAA and is not controlled by a statutory body (because, for example, their function is to provide personnel services to more than one statutory body), the agency should contact Treasury to determine where its financial statements should be published and to determine the treatment of the employee related annual reporting information.

<sup>10</sup> The Annual Report Compliance Checklist is available on NSW Treasury's webpage: [http://www.treasury.nsw.gov.au/Annual\\_Reporting/Annual\\_Reporting](http://www.treasury.nsw.gov.au/Annual_Reporting/Annual_Reporting)

- The annual report of the department must disclose statutory information regarding employee related matters (as summarised in Treasury's Annual Report Compliance Checklist<sup>10</sup>) for all employees that provide services to the department.
- As well as disclosing the total number of employees that provide services to the department, the department must disclose the number of employees that provide personnel services to statutory bodies, disaggregated by statutory body.
- The statutory information regarding employees that provide personnel services to the statutory body must be included in the annual report of the relevant statutory body (refer section 4.2). For this information, the annual report of the department must cross refer to the annual report of the statutory body.

#### **4.2 Statutory bodies that receive personnel services**

Statutory bodies listed in PFAA Schedule 2 must prepare annual reports. The annual report includes the financial statements for the statutory body (parent), each controlled entity (including special purpose personnel service entities) and economic (consolidated) entity. However, where a statutory body receives personnel services, the annual report disclosures differ depending on the type of entity from which it receives personnel services.

Where a statutory body receives personnel services from a special purpose staff agency (i.e. a controlled entity of the statutory body), this Circular requires that statutory body disclose in its annual report:

- that personnel services for that statutory body are provided by the relevant special purpose staff agency; and
- details of relevant special purpose staff agency employees that provide personnel services to that statutory body (although not directly employed by the statutory body) i.e. covering annual reporting requirements regarding employee related matters in Treasury's Annual Report Compliance Checklist<sup>10</sup>

Where a statutory body receives personnel services from a department that does not control the statutory body, this Circular requires that the annual report of the statutory body must include statutory information in relation to the department's employees that provide personnel services to it (refer to employee related matters in Treasury's Annual Report Compliance Checklist<sup>10</sup>). However, the statutory body's annual report must make clear that, although reported in its annual report, the staff are employees of the relevant department.

Where a statutory body receives personnel services from a department that controls the statutory body, this Circular requires that the annual report of the department must include the statutory information regarding employee related matters as summarised in Treasury's Annual Report Compliance Checklist<sup>10</sup>, including the personnel services provided to the statutory body (as section 4.1 articulates).

### **5. Application of Financial Reporting Code**

This Circular exempts special purpose staff agencies from the requirements of the Financial Reporting Code.

Entities subject to the Financial Reporting Code and impacted by personnel service arrangements must disclose the following information in their financial statements:

- Additional disclosures as outlined in this Circular.
- On the face of the Statement of Comprehensive Income, where applicable:
  - entity receiving personnel services (i.e. statutory body) – Additional line item under 'Operating expenses' for 'Personnel services'.
  - entity providing personnel services (i.e. public service agency under GSEA) – Additional line item under 'Revenue' for 'Personnel services revenue'.
- The reference to 'employee related maintenance expense' in Note 2(b) in the Financial Reporting Code must be read as a reference to 'personnel services maintenance expense'. This amends

the *Guidelines for Capitalisation of Expenditure on Property, Plant and Equipment* to require the total maintenance expense to be dissected into personnel services related maintenance and other maintenance.

- Other expenses, revenues, assets and liabilities referred to in this Circular must be classified into existing line items in the primary financial statements and dissected in the notes, as appropriate.

## **6. Determination of Financial Year**

Most NSW Public Sector entities operate on a financial year that ends at 30 June. This includes agencies listed in GSEA Schedule 1 that are subject to the PFAA financial reporting requirements.

There may be rare circumstances where an Act or the Treasurer has determined a financial year end for a statutory body other than 30 June. In these circumstances, where that statutory body controls a special purpose staff agency, the financial year for the staff agency is determined to be the same as the statutory body that controls it. This determination is issued pursuant to PFAA section 4(1A).

## **7. Total State Sector Reporting Using TOES / FIS**

No separate reporting using TOES is required for special purpose staff agencies. This is because where a statutory body has a controlled special purpose staff agency, financial reporting is required using TOES for the consolidated entity.

However, reporting in TOES/FIS of personnel service arrangements may be required in other circumstances; e.g. where a department provides personnel services to a statutory body that is not controlled. In these circumstances, relevant TOES accounts for personnel service expense and liabilities and personnel services revenue and receivables will need to be used. If it is unclear which relevant TOES accounts should be used, agencies should contact their Treasury Analyst.

Any inter-agency transactions and balances arising from personnel services provided to other agencies will need to be confirmed for consistency.

## **8. Management Agreements**

Entities should have an appropriate management agreement in place to establish the basis for the payment for personnel services. Any management agreement will need to specify the basis of the payment for personnel services to encompass all the relevant employee-related costs in accordance with NSW Treasury Circulars.

## **9. Restructures Involving Personnel Services**

Machinery of government changes may involve abolishing staff agencies or transferring staff agency employees to another agency while personnel services continue to be provided to the same statutory body.

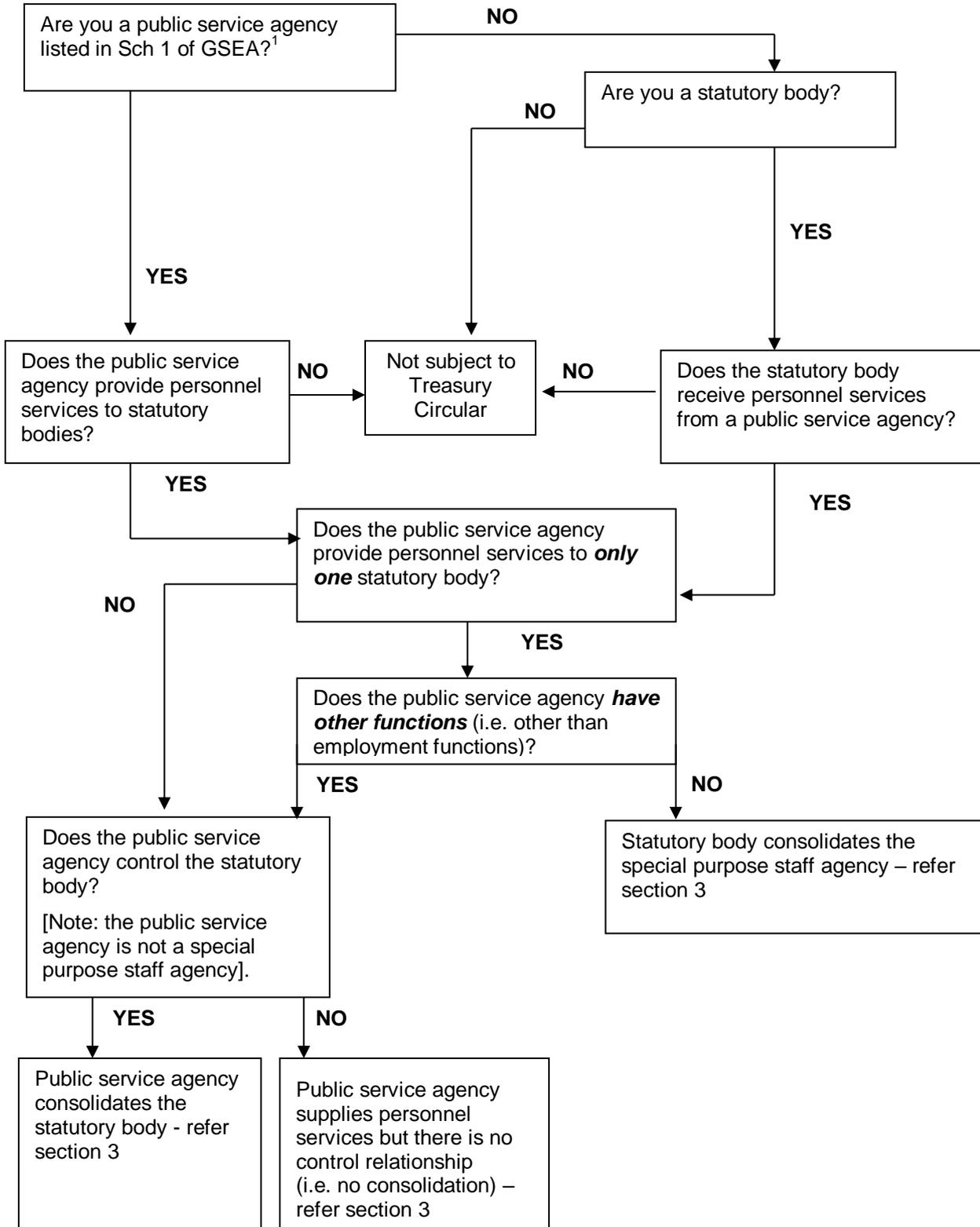
In principle, these types of transfers are equity transfers, in accordance with TPP 09-03 *Contributions by Owners Made to Wholly Owned Public Sector Entities*. However, where such transfer between two entities has a nil equity impact; i.e. as it involves the transfer of a personnel services receivable and employee related liability of the same amount, then those entities are not required to apply the policy.

Furthermore, where transferred employees continue to provide personnel services to the same statutory body, there should be no impact on the funding arrangements for LSL or superannuation as the transfer does not, of itself, change the status as to whether LSL or superannuation is assumed by the Crown. NSWTC 14/06 *Funding Arrangements for Long Service Leave and Transferred Officers Leave Entitlements* (or any replacement NSW TC) does not apply in these situations.

Where an agency is unclear about whether a transfer of personnel service staff impacts on its funding arrangements, that agency should contact its Treasury analyst.

## Appendix A

### Financial Reporting implications of Personnel Service Arrangements



<sup>1</sup> Or a Division in the NSW Health Service under the *Health Services Act 1997*.