
Appendix two – Classification of government entities

Types of classification

All government entities, at state and federal levels, are harmonised under the Government Finance Statistics (GFS) framework which facilitates the easy analysis of fiscal policy. All government entities are classified to a specific institutional sector and the Australian Bureau of Statistics (ABS) has the responsibility of classifying units for the purpose of official statistics based on information provided by the states. In each state, a single agency is responsible for managing the relationship with the ABS and in New South Wales that role is taken by the Treasury.

Australian Accounting Standards Board (AASB) Standard 1049 requires the whole-of-government general and general government consolidated financial statements must be prepared in accordance with Australian Accounting Standards. Further, the NSW Government is required to comply with the principles and rules of the Government Finance Statistics, where this is not inconsistent with Australian Accounting Standards.

For financial reporting and policy framework purposes government entities are classified into one of three possible classifications:

- General Government (GG) – institutional units that provide non-market goods and services (for example, roads, hospitals, libraries) primarily financed by taxes, to regulate and influence economic activity, to maintain law and order, and to redistribute income by means of transfer payments.
- Public Financial Corporations (PFC) – corporations that are principally engaged in providing financial services (including insurance and pension fund services) to other institutional units.
- Public Non-Financial Corporations (PNFC) – corporations whose principal activity is the production of non-financial goods and/or non-financial services at economically significant prices. Non-financial services are any services that do not qualify as financial intermediation or auxiliary financial services.

General Government agencies make up the majority of NSW Government entities representing 93 out of 118 (78.8%) distinct government entities listed in the 2021–22 Budget papers. In comparison, there are 21 PNFCs (17.8% of the total) and four PFCs (3.4% of the total).

Accounting treatment of different classifications

The New South Wales Total State Sector is made up of the combination of the three group classifications above and accounts are produced each year for the General Government Sector (GGS) and the Total State Sector.

For the purposes of this audit, an important difference between General Government entities, PNFCs and PFCs is the accounting treatment of funding provided to the entity by the government.

GGs investments in either PNFC or PFC entities are measured as one of the following:

- fair value, where fair value is reliably measurable
- the government's proportional share of the carrying amount of net assets of the PNFC sector or PFC sector entity before consolidation eliminations, where fair value is not reliably measurable and the carrying amount of net assets before consolidation eliminations is not less than zero
- zero, where fair value is not reliably measurable and the carrying amount of net assets of the PNFC sector or PFC sector entity before consolidation eliminations is less than zero.

The GGS treats investment in the PNFC or PFC sector as described above, regardless of whether it makes a return. In the case where funds provided to PNFC or PFC entities' are classified as equity investments rather than grant expenses, this would improve the appearance of the GGS Budget.