Accounting policy update – newsletter

Edition No. 40 July 2021

Scope: This biannual newsletter outlines areas of importance in public sector financial reporting. Please distribute to both budget and financial reporting areas of Victorian public sector entities.

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# Overview

As most of our controlled public sector entities and departments prepare for their 30 June 2021 financial year end reporting requirements, we give an update of the key changes that are relevant to the reporting period.

The [*2020-21 Model Report for Victorian Government Departments*](https://www.dtf.vic.gov.au/model-report/2020-21-model-report) was released in March 2021 and is available from the DTF website. The major changes made in this edition relate to the Asset Management and Accountability Framework (AMAF) reporting requirements and a new appendix containing supplementary disclosure guidance on the ongoing application of AASB 1059 *Service Concession Arrangements: Grantors*.

As we are at the end of the financial year entities are to be reminded of the following:

* finalise their valuation assessments ensuring their non‑financial assets are reflected at fair value, taking all relevant factors into consideration, including the Valuer‑General Victoria (VGV) indices released in May. This newsletter also provides guidance on subsequent measurement of right-of-use assets
* review Financial Reporting Directions that have been updated since the last newsletter:
  + FRD 22I – *Standard disclosures in the Report Operations*
  + FRD 103I – *Non-financial physical assets*
  + FRD 120O – *Accounting and Reporting Pronouncements Applicable to 2020-21 Reporting Period*
* complete annual report attestations for the 2020-21 financial reporting period in relation to all applicable Standing Directions 2018 and Instructions
* review wage inflation rates issued on 1 July 2021.

We note changes on the horizon from the AASB on page 7 that may impact your annual reporting requirements

Finally, a table of key financial publication dates is included in this newsletter, along with information on other developments for the 2020–21 reporting year.

## Major updates and reminders

### *2020‑21 Model Report for Victorian Government Departments*

The Department of Treasury and Finance (DTF) released the *2020-21 Model Report for Victorian Government Departments* (Model Report) in March 2021 and made it available on the DTF website – <https://www.dtf.vic.gov.au/model-report/2020-21-model-report>, including a list of the key changes from the previous year’s publication.

The key changes include:

* Illustration and guidance related to the Asset Management Accountability Framework (AMAF) reporting requirements
* A new appendix containing supplementary disclosure guidance on the ongoing application of AASB 1059 *Service Concession Arrangements: Grantors*
* Removal of transitional disclosures and guidance that were included in the 2019-20 Model Report for the initial application of AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases*,AASB 1058 *Income of Not-for-Profit Entities* *and* AASB 1059 *Service Concession Arrangements: Grantors.* Transition disclosures are not required in years following adoption
* General editorial changes and enhancements.

## AASB 124 *Related Party Disclosures*

### Ministerial declarations for the 2020‑21 reporting period

To support the compliance and preparation of financial reports by not‑for‑profit public sector entities, information consistent with the requirements of AASB 124 *Related Party Disclosures* is collected twice in each financial year from Cabinet ministers, as not all Victorian public sector entities have a 30 June year‑end. For example, the year-end for Alpine Resort entities, TAFEs and schools is 31 December.

The second submission of declarations in relation to related party transactions by Ministers for 2020‑21 covers the period 1 January 2021 to 30 June 2021 and is expected to be completed by mid-July 2021.

Consistent with previous reporting periods, where there are any transactions reported, DTF will give the relevant information extracted from ministerial declarations to the relevant portfolio entities to perform a ‘significance’ and a ‘materiality’ assessment of the nature and amount of the related party transactions for disclosure, where relevant, in the entities’ annual financial reports.

Entities are reminded that, under the agreed protocols, consultation is required with the relevant Minister(s) and DTF, where disclosures are proposed.

### Movements in key management personnel for departments and agencies

Disclosure for the 2020-21 reporting period will need to include information relevant to all key management personnel appointed during the period, including any executive appointments and departures during the relevant financial reporting period**.**

### Guidance information

A declaration certificate, checklist and comprehensive guidance are included on DTF’s website to assist entities to comply with AASB 124 at: <https://www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures>

## Interim valuation assessments

Entities are reminded to ensure they have conducted their interim valuation assessments in preparation for year-end.

You would have already conducted your 2020-21 interim valuation assessments using the 31 December 2020 indices that were released in November 2020 as a preliminary indicator to assess how the fair values for land have moved for the period. For 30 June 2020, please finalise your valuation assessments using the 30 June 2021 indices released in May 2021.

In instances where the cumulative fair value movements have changed substantially, and these movements are greater than 30 per cent but less than 40 per cent as per FRD 103I, we strongly recommend you alert the Valuer-General Victoria (VGV) in anticipation that the 40 per cent threshold may be triggered before the formal fifth valuation year, requiring a formal valuation for that class of assets.

The Valuer-General’s land indices can be found at: [*https://www.dtf.vic.gov.au/financial-reporting-policy/valuer-general-land-indices*](https://www.dtf.vic.gov.au/financial-reporting-policy/valuer-general-land-indices).

Victorian government departments, agencies and entities should contact their portfolio department in the first instance for the login details to access the land indices. Our December 2016 Newsletter, Edition No. 31 contains information on interim valuation assessments, including an example of how to assess fair value movements on a cumulative basis. The publication can be found at [www.dtf.vic.gov.au/Accounting-policy-newsletters](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Accounting-policy-update-newsletters).

## Subsequent measurement of right-of-use assets

The policy to value right-of-use assets (ROUA) at fair value (with the exception of below market or peppercorn leases) has not changed from previous years. While a practical expedient was provided last financial year, for these ROUA to be carried at cost (unless management became aware of instances requiring adjustment), a similar expedient cannot be used this year. Although we appreciate it is not straightforward to determine fair value, it would have needed to have been done for impairment purposes in any event.

This area is very judgemental, but the fair values of ROUAs are linked to lease payments. Management therefore need to assess if the current lease payments under the contract approximate current market rentals for equivalent properties that would be paid in the current environment.

In the general government sector, the fair values of most (if not all) of non-financial assets are determined with reference to the amounts that will have to be paid to replace the current service capacity of those assets.

The amounts that would need to be paid to replace the current service potential of ROUA (the floor place used to provide the public sector service) would be the current rentals that would need to be paid to a landlord for a similar space.

Management could:

* obtain/develop a best estimate of the current market rentals in connection with the particular lease, for instance by obtaining rentals for similar/equivalent properties through enquiring from lessors and/or rental agents, VGV etc.
* compare the present value of the estimate of current market rentals to the carrying amount of the ROUA and if they differ by more than 10 per cent , perform a recalculation of the ROUA and adjust the value of the ROUA to the calculated value
* If the difference between the present value of the estimate of current market rentals and the carrying amount of the ROUA does not exceed 10 per cent, a remeasurement adjustment is not required.

In addition, if management is aware of any factor that would impact the value of the ROUA (impairment or otherwise), we recommend that the value of the ROUA be adjusted to reflect fair value.

## Financial reporting directions and guidance notes

The following FRDs have been updated during the period:

### FRD 22I *Standard disclosures in the Report of Operations*

The FRD has been revised to incorporate the annual reporting disclosure requirements for preparers under AMAF.

Published in 2016, the Asset Management Accountability Framework (AMAF) is a mandatory, non‑prescriptive framework for managing public assets in Victoria. Commencing in 2020-21, the AMAF requires departments and agencies to conduct a self-assessment of the level of asset management maturity within their organisation and report this in their annual reports, with further disclosures every three years. The AMAF disclosure is mandatory for all departments and recommended for agencies, with a view to become mandatory in the 2023-24 reporting cycle for all public bodies.

### FRD 103I *Non-financial physical assets*

The following amendments have been made to FRD 103I:

* Right-of-use assets has been incorporated into the Direction and also clarifies that an approved valuer is not required to be used for right-of-use asset valuations. These requirements were in place before, but the FRD now specifically references these requirements.
* Editorial changes have also been made to enhance clarity of FRD 103I including applicability to joint ventures.

### FRD 120O *Accounting and Reporting pronouncements*

FRD 120O includes the accounting and reporting pronouncements applicable to departments and public bodies for the 2020-21 reporting period. This includes the amended FRDs outlined above, as well as the Accounting Standards and Standing Directions. It also includes details of new and amending standards that will apply in future reporting periods.

# Financial reporting legislation

## Standing Directions – annual report attestation

The Standing Directions 2018 under the *Financial Management Act 1994* (2018 Standing Directions) require a formal attestation statement in your annual reports. All agencies with a 30 June reporting date must complete an attestation statement for the period **1 July 2020** to **30 June 2021,** covering **all** applicable 2018 Standing Directions and Instructions as required and in a form prescribed by [**Instruction 5.1, clause 2**](http://www.dtf.vic.gov.au/files/0b43b325-68cc-4285-9055-a5a6010a5a01/Standing-Directions-Instructions-2016.docx)**.2**.

However, please note that in light of the coronavirus (COVID-19) pandemic and its impacts on the operations of agencies, specific advice on the 2020-21 timing and other requirements for attestation is being provided to agencies by the DTF Financial Frameworks team.

If you have any further queries on the Standing Directions, please direct your queries to the DTF Financial Frameworks team mailbox: [standing.directions@dtf.vic.gov.au](mailto:standing.directions@dtf.vic.gov.au).

## Superannuation Guarantee Levy

Consistent with the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014* passed in September 2014, the SGL rates will increase by 0.5 per cent to 10 per cent on 1 July 2021.

The next Superannuation Guarantee Levy (SGL) rate change for departments and agencies will be effective from 1 July 2022 when the rate will increase to 10.5 per cent. These annual increases of 0.5 per cent will continue until the SGL reaches 12 per cent on 1 July 2025.

## Wage inflation and discount rates

DTF publishes the wage inflation and discount rates quarterly for the September, December, and March quarters. Rates are released monthly for the June quarter of each financial year. The most recently published rates (i.e. June 2021) should be used by entities to remeasure their employee benefit provisions for the 2020-21 reporting period.

The wage inflation and discount rates are published for both the 2004 and 2008 Long Service Leave Models. Wage inflation rates reflect current economic assumptions made in the preparation of the Budget. The discount rates are representative of the yield of Commonwealth Treasury bonds, published by the Reserve Bank of Australia.

Despite the slightly downward trend observed in the June quarter, the annual discount rate has experienced an overall increase during 2020-21 (a considerable decrease of 61.9 basis points since 30 June 2020) that, all else being equal, will reduce the present value of the annual and long service leave liabilities.

The wage inflation rate has remained stable and currently sits at 2.95 per cent. This is based on the forward estimates for the wage price index published in the 2021-22 Budget, plus 1 per cent for promotion and progression.

## Proposed amendments to financial management legislation **financial framework**

DTF is currently developing options for financial management reform, which may result in proposals for legislative change. Departments will be consulted on any such proposals as applicable.

## Resource Management Framework

The Resource Management Framework (RMF) assists Victorian government departments in understanding and implementing the legislative and administrative policies for the State’s financial management framework, encompassing the areas of goal setting, public sector planning, budgeting, service delivery, accountability, and review. The RMF has been updated and the new version is now available on the DTF website, at this link*:* [*https://www.dtf.vic.gov.au/planning-budgeting-and-financial-reporting-frameworks/resource-management-framework*](https://www.dtf.vic.gov.au/planning-budgeting-and-financial-reporting-frameworks/resource-management-framework)

This RMF update comprises a number of changes, resulting from updated legal advice, changes relating to the Departmental Funding Model Review work, and other clarifications of existing policies.

## Key financial publication dates for the State of Victoria

The following table shows the indicative key publication tabling dates for some of the State’s upcoming financial publications.

|  |  |  |
| --- | --- | --- |
| Reporting year | Publication | Anticipated release dates – actual dates to be confirmed |
| **2020**-**21** | Annual Financial Report | **Legislative due date**: 15 October 2021 |
| **2020-21** | Department and entity reporting (for entities with a 1 July-30 June reporting period) | **Legislative due date**: 31 October 2021, and this will apply for material entities. |
| **2021-22** | September Quarterly Financial Report | **Legislative due date**: 15 November 2021 |
| **2021-22** | Budget Update | **Legislative due date**: 15 December 2021 |
| **2021-22** | Mid-Year Financial Report | **Legislative due date**: 15 March 2022 |
| **2022-23** | Budget papers | **TBD** |

## Termination for convenience clauses

As indicated in a previous newsletter, the accounting treatment of termination for convenience clauses (TFCs), has sparked debate as to whether any unspent funds should be recognised as a financial liability by the receiving party, or recognised as income until such time as the grantor calls for any unspent monies to be repaid.

Following the discussion at the November 2020 AASB Board meeting, where no further guidance was forthcoming, the Accounting Policy team reached out to the sector to understand the prevalence of TFCs and their indicative impact.

Thank you to the respondents and those that attended the follow up calls.

At this time, we do not believe that TFCs will have a significant impact on the sector for the following reasons:

* TFCs are included in most contracts but are rarely used in practice. They are protective in nature and allow for government flexibility.
* In most instances, only the State has the right to terminate for convenience and will only need to compensate for the costs of goods or services already received and any other reasonable costs incurred. Given this, we do not believe a liability for termination should be recognised at contract inception. In addition, following accrual accounting principles, a liability for goods or services would already have been recognised to the extent they have been received but not paid for.
* There were some instances where penalties are payable for termination, but they haven’t been used except for one instance. The decision to terminate rests with the State and a liability should consequently only be recognised when the decision to terminate has been made.
* Revenue recognised under AASB 15 *Revenue from Contracts with Customers* principles will effectively mean that any portion that has not been earned is deferred as a contract liability in any event.
* For income recognised under AASB 1058 *Income of Not-For-Profit Entities*, there were very few instances where entities would need to repay unspent monies if the agreements were to be terminated. From what we could identify, these grants were not paid in advance or were only paid on achievement of milestones in any event.

We understand that it is the Victorian Auditor General’s Office (VAGO) position that either treatment as a liability or income will be accepted, permitted that appropriate disclosures are made in the affected entity’s annual report.

# AASB update

## Key AASB standards effective for 2020-21

There are no key AASB standards that become effective in 2020-21, noting the State was an early adopter of AASB 1059 *Service Concession Arrangements: Grantors* in 2019-20.

## Key AASB standards issued but not effective for 2020‑21

### AASB 17 *Insurance Contracts*

Information about AASB 17, including implementation issues specific to the public sector, has been included in previous newsletters. Entities should refer to these for details.

AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts* was issued in July 2020. The intention of the standard is to reduce the costs of applying AASB 17 by simplifying some of its requirements and ease transition by deferring its effective date to annual periods beginning on or after 1 January 2023 instead of 1 January 2021. It also includes optional relief to reduce the complexity in applying AASB 17 for the first time.

The standard also amends AASB 4 *Insurance Contracts* to permit eligible insurers to continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* until they are required to apply AASB 9 *Financial Instruments* alongside AASB 17.

It is anticipated that AASB 17 will have limited impact on Victorian public sector reporting.

## Other new standards issued since 1 January 2021

We have only included amending standards below that may have a significant impact on Victorian public sector reporting. There have been other amending standards issued by the AASB that we view to have limited impact, and these have been omitted from the list below. All amending standards are included on the AASB website, should you have the need to refer to them.

### AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date*

This standard amends AASB 101 *Presentation of Financial Statements* to defer requirements for the presentation of liabilities in the statement of financial position as current or non-current that were added to AASB 101 in AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* (refer to June 2020 newsletter for details).

The amendments will now apply to annual reporting periods beginning on or after 1 January 2023 instead of 1 January 2022, with earlier application permitted.

### AASB 2021-3 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions beyond 30 June 2021*

This standard amends AASB 16 to extend by one year the application period of the practical expedient added to AASB 16 by AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions*.

The practical expedient permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.

This standard extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. This standard applies to annual periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not authorised for issue at the date this Standard was issued.

Entities are also referred to FRD 120O, Appendix 2 *Issued but not yet effective Australian accounting standards and reporting pronouncements,* which summarises standards (including amending standards) that have been issued but are not effective for the 2020-21 reporting period.

# Other developments

## Tier 3 reporting

The Financial Reporting Council has a working group that is undertaking a review of financial reporting in the public sector, with a proposal to streamline reporting for smaller entities to reduce cost and complexity in reporting. While the scope of application is yet to be determined, more work will be undertaken by the AASB to refine the proposal and a further consultation with its constituents is planned.

## Exposure Draft (ED) 2021/1 Regulatory assets and regulatory liabilities

The International Accounting Standards Board (Board) is proposing an accounting model to supplement the information that an entity already provides by applying IFRS Standards. The proposed model is based on the principle that a rate regulated entity should reflect the total allowed compensation for goods or services supplied in a period as part of its reported financial performance for that period.

To implement that principle, an entity would recognise in its statement of financial position:

1. regulatory assets—enforceable present rights to add an amount in determining future regulated rates because part of the total allowed compensation for goods or services already supplied will be included in revenue in the future
2. regulatory liabilities—enforceable present obligations to deduct an amount in determining future regulated rates because the revenue already recognised includes an amount that will provide part of the total allowed compensation for goods or services to be supplied in the future.

As a result, an entity would recognise in its statement(s) of financial performance:

1. regulatory income to depict a part of the total allowed compensation for goods or services supplied in the current period that was included in revenue in past periods, or will be included in revenue in future periods
2. regulatory expense to depict an amount included in revenue in the current period that provides part of the total allowed compensation for goods or services that were supplied in past periods or will be supplied in future periods.

We will keep you abreast of any developments in this area, as the ED progresses.

## Sustainability reporting

Sustainability Reporting Standards are increasingly becoming a matter of interest at the national and international levels. A new International Sustainability Standards Board (ISSB) is likely to be formally announced in November 2021 and it is likely that the ISSB will develop consistent global reporting standards to replace existing environmental and climate change reporting.

At this time there are no further updates, but it is expected that when the ISSB is formed, significant change may be introduced.

We will inform you of developments accordingly.

## Streamlining financial statements

VAGO released an article associated with streamlining of financial statements: <https://www.audit.vic.gov.au/news/streamlining-public-sector-financial-statements-tips-and-tricks-20210127>.

Working sessions will be scheduled later in the year on a sector by sector basis, presented by VAGO, to discuss and progress the initiative as deemed appropriate.

# How to contact us

## AccPol mailbox

When directing accounting policy enquiries to DTF at [accpol@dtf.vic.gov.au](mailto:accpol@dtf.vic.gov.au), **departments** are requested to support their questions with the facts and with clear referencing to Accounting Standards, FRDs and other authoritative pronouncements related to their queries.

**Other entities** are requested to contact their portfolio department in the first instance to resolve any accounting policy issues.

## Useful websites

**AASB** – [www.aasb.com.au](http://www.aasb.com.au) for information on AASB pronouncements, discussion papers and ED publications.

**International Public Sector Accounting Standards Board (IPSASB)** – [www.ipsasb.org](http://www.ipsasb.org) for information on IPSASB and IPSAS pronouncements.

## DTF website

**The DTF website (for all internet users)** – [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au) covers FRDs and guidance, the Model Report, accounting policy updates, long service leave models and related data input, including wage inflation and discount rates. From the menu on the top of the home page, users should select Financial Management of Government, then Financial Reporting Policy.

**VPS users** should contact their portfolio department in the first instance for the login details to access the information relating to the 2008 Long Service Leave Model and/or, the Valuer General building and land indices.

For assistance with technical difficulties using the DTF website, e.g. broken links, please contact the DTF web team via email at [dtfweb@dtf.vic.gov.au](mailto:dtfweb@dtf.vic.gov.au)

## About the Accounting Policy Update

Accounting Policy Update is published by the Accounting Policy team of DTF twice a year. The aim of the newsletter is to highlight changes in financial reporting requirements affecting public sector entities, outlining any financial reporting related policy decisions reached by DTF and to inform readers of other developments that are under consideration by the AASB

Disclaimer: No responsibility is taken for any action(s) taken on the basis of information contained in this Newsletter nor for any errors or omissions in that information.

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