Accounting policy update

Newsletter – Edition No. 39, January 2021

#### Scope: This bi‑annual 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

Work on the *2020-21 Model Report* is now underway, with an anticipated release in late March 2021.

As we are halfway through the 2020-21 financial year, all entities are reminded to:

* ensure they continue to roll out their key management personnel AASB 124 *Related Party Disclosures* declarations and attestation statements to support their annual reporting process;
* assess and ensure their non-financial assets are reflected at fair value annually, and consider whether there is a need to revalue their non-financial assets, taking all relevant factors into consideration, including recently released Valuer-General Victoria (VGV) indices; and
* review wage inflation rates as following the release of the *2020-21 State Budget*, the wage inflation rate has been revised.

There are no key Australian Accounting Standard Board (AASB) standards that become effective in 2020-21, noting the State was an early adopter of AASB 1059 *Service Concession Arrangements: Grantors.* We note the following changes on the horizon from the AASB that may impact your annual reporting requirements:

* key AASB standards issued but not effective for 2020-21; and
* other new standards issued since 1 July 2020.

Information on the accounting treatment for Termination for Convenience clauses (TFCs), has been included in this newsletter after it has recently been discussed at the November 2020 AASB Board meeting.

Finally, a table of key financial publications due in the coming year, along with their anticipated publication dates, is included in this newsletter, along with information on the release of the 2021 DTF Information Request and incoming machinery of government changes.

# 2020-21 reporting year

## Major updates/reminders

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

The Department of Treasury and Finance (DTF) has commenced preparatory work on the *2020-21 Model Report* and has set an anticipated release date of late March 2021.

Currently there are no significant new requirements anticipated to be included in the Model Report. However, a multi-year project is expected to commence shortly, in consultation with VAGO, to further enhance the useability and readability of the Model Report. Further communication will be provided as and when the changes are drafted.

### 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 not-for-profit entities have a 30 June year-end. For example, the year-end for Alpine Resort entities, TAFEs and schools is 31 December.

Cabinet ministers were requested to complete and return their certificates for the period 1 July to 31 December 2020 to the Department of Premier and Cabinet no later than **22 January 2021**.

DTF will provide 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

Entities with a 31 December 2020 reporting date are reminded disclosure for the 2020 reporting period will need to include information relevant to all key management personnel appointed during the period, including any executive appointments and departures.

#### Guidance information

A declaration certificate, checklist and comprehensive guidance are available in the ‘Financial Reporting Policy’ section of DTF’s website at: [www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures](https://www.dtf.vic.gov.au/financial-reporting-policy/aasb-124-related-party-disclosures).

### Interim valuation assessments

With the release of the October 2020 indices (covering the period 1 January to 31 December 2020), entities with 30 June reporting periods are encouraged to use these indices to perform interim assessments of their assets to determine whether any material movements in fair value have occurred. For entities with 31 December reporting periods, the October indices are used for the actual valuation, as these indices reflect a more updated outcome than using the April indices previously published.

Key points for VPS entities to note when performing interim assessments include:

* Fair value assessments should be conducted annually (between formal scheduled revaluations) using appropriate fair value indicators, which include the VGV land and building indices and other relevant factors.
* This assessment should take into consideration the appropriate fair value indicators to determine whether any material (greater than 10 per cent but less than 40 per cent) or exceptionally material (greater than 40 per cent) changes in the asset’s value has occurred.
* For **land**, entities may use the VGV land indices, which are based on the postcode of each property. Indices are provided for each of the land types – residential, industrial, commercial and Englobo (development land) – and entities should adopt the appropriate indices depending on the zoning of land, rather than what it is being used for.
* **Infrastructure assets** valued on a current replacement cost (CRC) basis should be assessed against relevant indices for the cost of construction.
* For **non‑specialised buildings** valued on a market value basis, no separate indices are produced by the VGV. Entities may use the land indices, which are based on market values, as a guide for their assessment.
* For **specialised buildings** valued on a CRC basis, entities may use the VGV building cost indexation factors on the DTF website for their assessment.
* Assessment of movements in asset values against the appropriate indices is on a compounding or cumulative basis. This means movements should be considered in aggregate for the interim years between last managerial/formal scheduled revaluations (i.e. years 1 to 4).

For further guidance on information on interim valuation assessments, including an example of how to assess fair value movements on a cumulative basis, refer to the *Guidance on application of FRD 103H* document available on <https://www.dtf.vic.gov.au/financial-reporting-policy/financial-reporting-directions-and-guidance>.

The Valuer-General’s land indices can be found at: <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.

### Scheduled valuations

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

In line with FRD 103H; entities must perform scheduled revaluations every five years, with timing based upon the relevant ‘COFOG’ category.

A table of COFOG categories allocated to VPS entities and current scheduled revaluation timelines are included in the *Guidance on the application of FRD103H Non-financial physical asset* document located on the following webpage: <https://www.dtf.vic.gov.au/financial-reporting-policy/financial-reporting-directions-and-guidance>.

In the event of a machinery of government (MoG) change where entities or functions are moved between portfolio departments, there should be no impact on their revaluation cycle, unless they have changed their purpose, and as a result, have been moved to a different COFOG category.

It is also important to note where a department’s internal policy is to align to COFOG, all entities within the portfolio would need to realign their revaluation cycle to match the respective department’s revaluations year, irrespective of whether a particular entity performed a formal valuation less than five years ago due to changes in MoG or the valuation being triggered early.

The key principle is no entity can defer their formal valuation process beyond a five-year cycle, regardless of when their official revaluation cycle was in the past.

Entities are responsible for monitoring their revaluations and complying with the five-year valuation cycle and should consult directly with the Valuer-General’s office. Where there needs to be realignment of valuation years this should also be discussed with VAGO.

## Incoming machinery of government changes

On 30 November 2020, the Premier announced that the Department of Health and Human Services (DHHS) will be separated into two new departments. The new Department of Health (DoH) and the new Department of Families, Fairness and Housing (DFFH) will commence operation from 1 February 2021.

DoH will be responsible for the Health, Ambulance Services, Mental Health and Ageing portfolios, while DFFH will include the current DHHS portfolios of Child Protection, Prevention of Family Violence, Housing and Disability. DFFH will also be responsible for policy areas of Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth which are currently served by the Department of Premier and Cabinet.

A new agency, COVID-19 Quarantine Victoria (CQV), has also been established to oversee all elements of the quarantine program, effective 1 December 2020. MoG orders issued under the *Public Administration Act 2004* and an Administrative Arrangements Order (No 240) 2020 can be found in the *Government Gazette*, numbers S 622 and S 625 respectively, all effective from 1 December 2020. (<http://www.gazette.vic.gov.au/gazette_bin/recent_gazettes.cfm?bct=home|recentgazettes>).

From a financial reporting and budgeting perspective, balance sheet transfers and adjustments to the 2020-21 appropriations for DoH and DFFH need to be made effective from 1 February 2021. Consequent adjustments to the 2021-22 budget and the forward estimates will also need to be negotiated and agreed between the relevant departments.

To guide departments through the requirements associated with updating budget and forward estimates’ information in SRIMS following the MoG changes, DTF issued an Information Request, setting out the guidance and dates for information to be provided by portfolio departments to DTF through their usual DTF relationship contacts.

The MoG change Information Request, titled ‘Impact of machinery of government changes’, will be available in SRIMS under the Information and Guidance dashboard. It will contain a number of useful references for use by departments to ensure the accounting and reporting requirements of the MoG change are appropriately addressed. It will also make reference to the *Machinery of government changes – VPS operating manual*, which can be accessed on the DTF website at: [www.dtf](http://www.dtf).vic.gov.au/financial-management-government/machinery-government-changes-vps-operating-manual.

## Financial reporting directions and guidance notes

Since the last newsletter, no further updates have been made to Financial Reporting Directions (FRDs). Any upcoming revisions and updates to FRDs will be for general improvements, which are largely editorial in nature. Further communication will be provided if any changes are made.

The FRDs and appropriate guidance applicable to Victorian public sector agencies can be found at <https://www.dtf.vic.gov.au/financial-reporting-policy/financial-reporting-directions-and-guidance>.

# Financial reporting legislation

## Standing Directions – annual report attestation

The Standing Directions 2018 under the *Financial Management Act 1994* (Standing Directions) require a formal attestation statement in your annual reports. All agencies with a 31 December reporting date must complete an attestation statement for the period **1 January 2020** to **31 December 2020,** covering **all** applicable 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.

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.

## Superannuation Guarantee Levy

There has been no change to the Superannuation Guarantee Levy (SGL) schedule since the last update on the SGL in the December 2017 newsletter edition. Consistent with the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014* passed in September 2014, the future SGL rates will remain at 9.5 per cent until 2021, before increasing by 0.5 per cent annually between 2021 and 2025.

## The next SGL rate change for departments and agencies will be effective from 1 July 2021 when the rate will increase to 10 per cent.

## Wage inflation and discount rates

DTF publishes the wage inflation and discount rates quarterly for the September, December and March quarters.

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 State Budget. The discount rates are representative of the yield of Commonwealth Treasury bonds, published by the Reserve Bank of Australia.

The graph above shows that the annual discount rate has declined through the 2020 calendar year (decrease of 38.2 basis points from December 2019 to December 2020), which will increase the present value of annual and long service leave liabilities, all else being equal.

During the 2020 December quarter, the annual discount rate trended slightly upwards (increase of 14.6 basis points from September to December 2020), after a period of little change in the June and September quarters. This is likely due to improved expectations for economic recovery in Victoria.

Following the release of the *2020-21 State Budget*, the wage inflation rate has been revised as 2.88%. This is a sharp decline of 137 basis points from the previous rate, which relied on pre-pandemic wage price forecasts taken from the 2019-20 Budget Update.

The subdued outlook for the labour market is expected to dampen wage growth for some time. As the economy recovers and spare capacity in the labour market is gradually reduced, wages growth is expected to increase moderately over the remainder of forecast period.

## Proposed amendments to financial management legislation and Frameworks

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 is currently being updated and, when approved, the new version will be available on the DTF website. Departments and other affected agencies will be consulted prior to finalisation of the proposals. A complete list of the changes in the RMF since the previous edition will be included in the updated RMF.

The former Financial Reporting Operations Framework (FROF) was retired as at 30 June 2020, with some of its topics incorporated into the Financial Reporting Directions, while others were merged into the RMF.

## Key financial publication dates for the State of Victoria in 2020-21

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



## 2021 DTF Information Request (DTF IR) for General Government Entities

The 2021 DTF Information Request (DTF IR) for General Government entities has been released, and provides up-to-date advice on all routine financial reporting, budget and other requirements for the 2021 calendar year.

The 2021 DTF IR is also now available in SRIMS under *Information and Guidance* and on the DTF website [here](https://www.dtf.vic.gov.au/planning-budgeting-and-financial-reporting-frameworks/dtf-information-requests).

Key updates and additions to the DTF IR in 2021 include:

* Budget submissions to be lodged by 5 February 2021 – page 3
* New item – Cashflow forecast and COVID-19 supplementary financial monthly data collection – page 12
* New item – COVID-19 supplementary financial quarterly data collection – page 13
* New item – Supporting COVID-19 recovery through procurement – page 18
* New item – Victorian Procurement Data Centre – page 19

The issuing of further guidance material to support the collection of financial data and information will be provided separately and progressively ahead of the notified timelines in the DTF IR.

For any questions, please contact your DTF relationship manager.

## Termination for Convenience Clauses

The accounting treatment for Termination for Convenience clauses (TFCs), when funds are provided by one party to another (e.g. in a grant agreement), has recently been discussed at the November 2020 AASB Board meeting after receiving a request from stakeholders for the AASB to provide clarification or guidance on accounting for these clauses. TFCs allows one or both parties to terminate the agreement without having to show cause, and if utilised, will require unspent funds to be returned to the party providing the funds.

Two views on the treatment of these clauses, by the party receiving the funds, were considered:

1. the clause gives rise to a financial liability at inception of the contract representing unspent funds and will reduce as funds are spent.
2. the clause does not give risk to a financial liability until there is a request for repayment.

Accounting Policy recognises that TFCs are widely used across government and as a State we may need to mandate a position on accounting for TFCs, and/or provide guidance on how to account for them based on specific circumstances. Given this, we will be conducting sector-wide outreach, beginning in January 2021, to understand what TFCs are included in contracts, how they are currently accounted for, how/if they are regularly exercised, the circumstances in which they are exercised and other factors such as compensation that may be payable when they are exercised.

The AASB Staff paper that covers the topic in detail can be viewed on the AASB website at: <https://www.aasb.gov.au/admin/file/content102/c3/5.1.0_SP_TFC_M178_PP.pdf>.

# 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*. Details have been included in previous Accounting Policy newsletters.

## 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 July 2020

We have only included amending standards below that may have an impact on Victorian public sector reporting. There have been other amending standards issued by the AASB, however information has not been included below because we deem them to have no impact.

**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.

## Exposure drafts issued for comment by the AASB since 1 July 2020

**ED 305 *Lease Liability in a Sale and Leaseback***

The International Accounting Standards Board, in this exposure drafted (ED), proposes to amend IFRS 16 *Leases* (AASB 16 *Leases*). The proposed amendment would specify the method a seller-lessee uses in initially measuring the right-of-use asset and liability arising in a sale and leaseback transaction and how the seller-lessee subsequently measures that liability.

The amendments in this ED will have limited impact on Victorian public sector reporting.

# 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 Australian Accounting Standards Board to refine the proposal and a further consultation with its constituents is planned.

# How to contact us

## AccPol Mailbox

When directing accounting policy enquiries to DTF at 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** – [www.dtf.vic.gov.au](http://www.dtf.vic.gov.au/Government-Financial-Management/Financial-reporting-policy), 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

## 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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