

2017–18 Model Report for Victorian Government Departments

VICTORIA

Model financial statements and report
of operations guidance for reporting
period ending 30 June 2018

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The Department of Technology is a fictitious department and has been used only for the purposes of illustrating financial reporting requirements for Victorian government departments.

A MESSAGE FROM THE MINISTER FOR FINANCE

I am pleased to endorse the streamlined 2017–18 *Model Report for Victorian Government Departments* (the Model) together with the revised user guidance material.

To provide consistency in the preparation of financial reports across the Victorian government, the 2017-18 Model is in a streamlined format, consistent with the format adopted for the previous 2016-17 Model.

The primary objective of streamlined reporting is to improve the effectiveness of communicating the financial performance and position of reporting entities in the delivery of their services, with a particular focus on:

- rewriting, reordering and relabelling the notes to the financial statements to provide greater insight into operations and outcomes; and
- removing immaterial or irrelevant disclosures;

while still fully complying with relevant legislative requirements and having due regard to stakeholder expectations such as those of the Public Accounts and Estimates Committee and users of public sector financial reports.

Additional guidance materials and appendices are included in the 2017-18 Model to assist preparers with the planning and preparation of disclosures in their annual reports.

This publication serves as the State's primary compliance guide under Standing Direction 5.2 *Annual reporting* in facilitating the provision of high quality and accurate information through annual reports, which is an essential part of open, accountable and effective government. This version of the Model contains further enhancements based on user feedback, and revisions consistent with the relevant Australian Accounting Standards including Interpretations (AASs) and Financial Reporting Directions (FRDs). The Model will also assist with the preparation of, and the information collected for, the State's consolidated Annual Financial Report.

All Victorian government departments are required to comply with the Model. In addition, many of our public sector entities operating as stand-alone business enterprises use this public sector Model as the authoritative guide to assist them in the preparation of their annual reports. I strongly encourage all Victorian public sector entities to follow this Model where relevant and appropriate for their users, to ensure that Victoria maintains its high standard of reporting on the use of all public resources.

I commend this revision of the Model to you as the benchmark for Victorian public sector financial reporting.

ROBIN SCOTT MP

Minister for Finance

ACKNOWLEDGMENTS

The Department of Treasury and Finance (DTF) wishes to acknowledge the suggestions and comments provided by users and departments for the preparation of the 2018 edition of this publication. DTF would also like to express its gratitude to the Victorian Auditor-General's Office for its significant contribution and support of the Model.

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INTRODUCTION

The Victorian Government provides a number of publications to inform Parliament, and the wider community about its financial plans, outcome and position. Many relate to individual agencies while others, on a consolidated basis, cover a sector or the whole of Victorian Government. Agencies fund, deliver and regulate a wide range of services on behalf of the Government, mainly related to education, health, public safety, transport and communication. Most of these services are funded through taxes, levies, fees from the sale of goods and services, and grants from the Commonwealth Government. Through their day-to-day operations, all agencies are involved in the financial management of and accountability for the State's finances.

Legislative background

The *Constitution Act 1975* sets down that only Parliament can give approval to the executive government to spend public funds. The Government, in turn, is committed to sound financial management of the State's public services and infrastructure assets. All Victorian public sector bodies operate under a prudent financial management framework comprising elements from the *Constitution Act 1975*, *Appropriation Acts* (annual and standing), the *Financial Management Act 1994* (FMA), the *Borrowing and Investment Powers Act 1987*, the *Public Administration Act 2004* and the *Audit Act 1994*. All of these Acts may contain sections that affect the requirements of the budget and financial reporting obligations to Parliament. In particular, the FMA governs the use of public money, and the accountability processes and subordinate legislation with which the Government, departments and other public sector bodies are obliged to comply. Note that the terms 'department' and 'public body' are defined in the FMA. 'Agency' is a term used in the Standing Directions of the Minister for Finance, which includes departments and public bodies.

Financial accountability and reporting

Key financial publications for the State of Victoria

The Department of Treasury and Finance (DTF) is responsible for the coordination, preparation and publication of the State's main planning and financial accountability documents that are required under the FMA. These include budgetary and financial reports, which are summarised in Diagram 1: *2017-18 annual financial publication cycle* and include:

- State budget papers (BPs) in conjunction with the Appropriation Bills;
- Budget Update;
- Annual Financial Report (AFR);
- interim financial reports, including Quarterly Financial Reports and Mid-Year Financial Report (QFR and MYFR); and
- Pre-Election Budget Update (PEBU) – only in election years.

Each of these publications provides a consolidated set of financial statements and accompanying notes based on data submitted by all agencies. In addition to the consolidated financial statements, all agencies prepares its own entity annual report.

DTF also provides the State's consolidated financial data to the Australian Bureau of Statistics (ABS) for inclusion in the national accounts and other statistical reports¹. The analysis and application of this data has significant consequences for the State. For example, the ABS publishes interstate comparisons of this financial data, which is relied upon by national authorities such as the Commonwealth Grants Commission when allocating the GST pool and other Commonwealth grant funding across the states and territories.

Therefore, high quality financial data is required, not only to fairly reflect the Government's financial performance and management of the State's resources, but also to fairly represent the level of activity in the State that impacts on the quantum of funding received by Victoria from the Commonwealth Government.

¹ DTF provides the State's consolidated financial data to the ABS based on the *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, 2005 (Catalogue No. 5514.0), published by the ABS. The ABS released a new manual, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* on 23 December 2015. The new manual will be operative from 1 July 2017. For the purpose of financial reporting under AASB 1049 *Whole of government and general government sector financial reporting*, the new manual will apply for reporting periods beginning from 1 July 2018. DTF is currently in the process of assessing the impact of the changes and will consult departments where appropriate.

INTRODUCTION

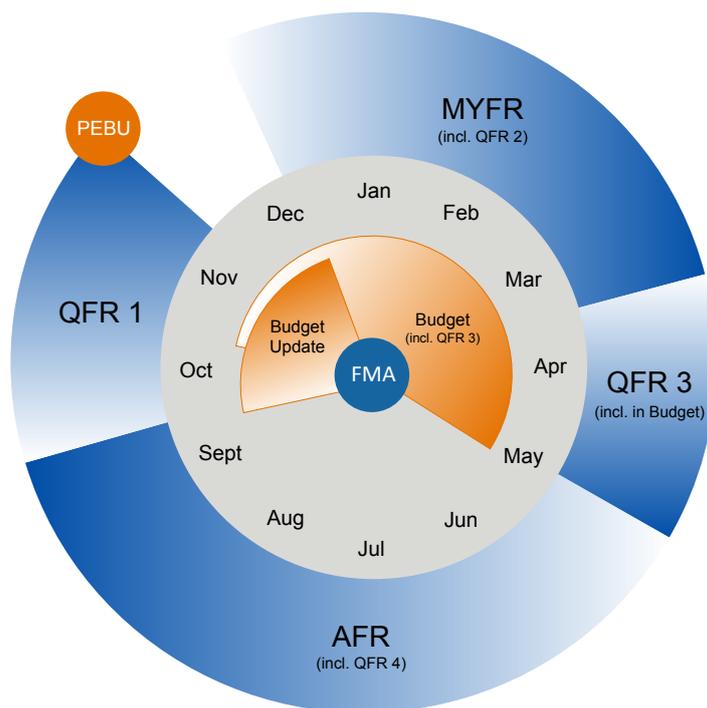
Resource materials

In support of the State's financial management legislative framework and provision of high quality financial data, DTF issues budgetary, regulatory and other financial reporting materials to enable consistency in the way public sector bodies record and submit their financial data to DTF. Some of the main guidance materials include:

- Standing Directions of the Minister for Finance and associated instructions and guidance;
- Financial Reporting Directions (FRDs)²;
- Budget Operations Framework (BOF), Financial Reporting Operations Framework (FROF) and Performance Management Framework (PMF); and
- The Model Report for Victorian Government Departments, which is revised and issued annually.

In February 2016, the Minister for Finance issued the revised Standing Directions under the FMA, which are applicable from 1 July 2016 and have been incorporated into the 2017-18 Model. The reform will help modernise Victoria's public financial management through strengthened accountability, planning and decision making, and a stronger flow of information between departments, agencies and government.

Diagram 1: 2017-18 annual financial publication cycle



Source: Department of Treasury and Finance

Notes:

- The darker the shading the more intensive the work effort.
- PEBU is only published in an election year. Refer to Diagram 3.
- Appropriation Bills are prepared and tabled with the Budget.
- The timelines illustrated above are indicative only.

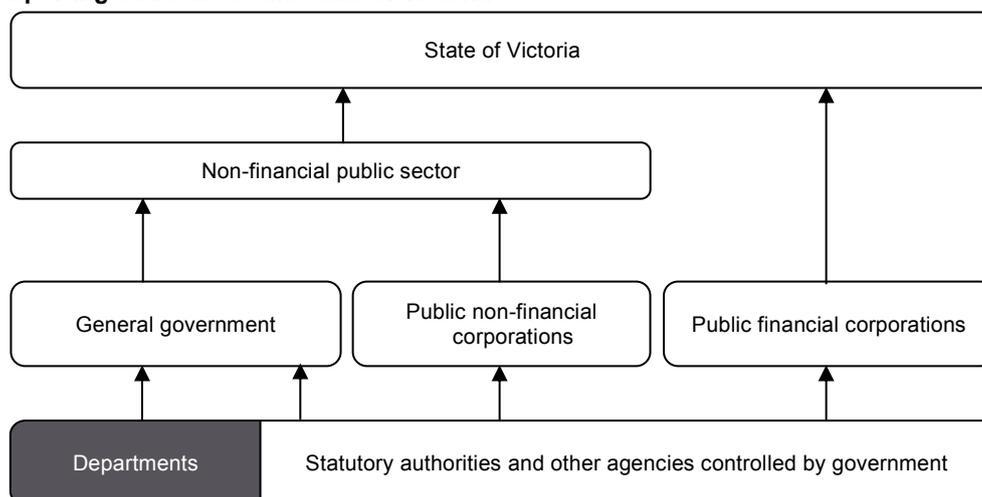
² FRDs are located on the DTF website at: www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Financial-reporting-directions-and-guidance

Reporting structure of the State of Victoria

The Victorian public sector includes a range of agencies established by legislation for specified purposes, including departments, statutory authorities, state owned corporations, school councils, boards, trusts, and advisory and management committees. Most of these agencies are established as 'not for profit' organisations, with a small group of 16 entities, mainly from the finance and metropolitan water portfolios, operating as 'for profit' organisations.

The reporting structure for the State is based on the System of National Accounts³, which classifies public sector bodies into either the general government sector, public non-financial corporations (PNFCs) or public financial corporations (PFCs) sectors. Diagram 2 *Reporting structure of the State of Victoria*, provides an overview of this reporting structure.

Diagram 2: Reporting structure of the State of Victoria



Source: Department of Treasury and Finance

The Victorian general government sector is the largest sector and forms the basis of the estimates published in the budget papers. As shown in Diagram 2, the general government sector comprises government departments and other bodies engaged in providing public services free of charge or at prices significantly below the cost of production for example, schools and hospitals. They generally receive more than 50 per cent of their funding from budget appropriations.

Organisations in other sectors of government – the PNFCs and PFCs – operate as stand-alone business enterprises, which aim to recover most of their costs involved in delivering their goods or services. Such entities include water and port authorities (PNFCs) and the Transport Accident Commission and Treasury Corporation Victoria (PFCs). Both the PNFC and PFC sectors are treated as equity investments of the general government sector.

The non-financial public sector (NFPS) represents a consolidation of the general government sector and PNFCs, after eliminating any transactions and debtor/creditor relationships between those sectors to avoid double counting. Similarly, the whole of state (WOS) is the consolidation (after relevant eliminations) of the NFPS with the PFCs. A more detailed explanation of the characteristics of each of these sectors can be found in the *2016-17 Annual Financial Report*.

Under the FMA, the budget papers mainly relate to the general government sector whereas the mid-year and annual financial reports include both the WOS and general government sector as required by the accounting standards. A comprehensive list of agencies, identified by sector, that submit financial data for consolidation into the State's key financial publications can be found in Note 9.8 of the *2016-17 Annual Financial Report*.

Diagram 3 *Publication coverage and project indicative timelines* provides further details regarding the reporting sector/entity basis of the key financial publications issued by DTF.

³ The System of National Accounts 1993 was released under the auspices of the Commission of the European Communities, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank.

The Model report – purpose and scope

In addition to the State's financial publications produced by DTF, the FMA also requires audited annual reports of government departments and public bodies to be tabled in Parliament within four months after the end of financial year or on the first sitting day of the House after the end of that month.

Under *Standing Direction 5.2 Annual reporting (SD)*, **all Victorian government departments** are required to comply with the Model when preparing and tabling their annual reports in Parliament.

These departments include the Departments of:

- Education and Training;
- Economic Development, Jobs, Transport and Resources;
- Environment, Land, Water and Planning;
- Health and Human Services;
- Justice and Regulation;
- Premier and Cabinet; and
- Treasury and Finance.

The Model has adopted the financial statement formats that align with the general government sector and whole of government formats. For consistency and comparability purposes, the Parliament of Victoria and all other Victorian public sector entities are encouraged to produce their annual reports with reference to this Model. **Judgement is required to determine where to apply or modify the Model to meet the entity specific reporting requirements.**

How to use the Model report

The Model prescribes a consistent approach to the preparation of both the financial and non-financial reporting requirements of **departmental** annual reports. It includes:

- guidance and commentaries highlighting the minimum disclosure requirements;
- convenient references and interpretations of relevant authoritative pronouncements; and
- illustrative AAS and FRD disclosures related to common departmental activities.

The Model addresses the departmental requirements for a complete set of financial statements (refer to the *Model financial statements* section) and in a separate section, the requirements of the FMA and FRDs for non-financial performance disclosures in a report of operations (refer to the *Model report of operations* section).

It should be noted that the Model is based on a fictitious department, and therefore the narrative illustrations should be used as a guide only.

This Model will enable preparers to readily identify applicable legislative and accounting reporting requirements, and to view related illustrative examples. In this way, the Model can be used as a basic guide for developing Victorian public sector financial statements. **However, the Model should not be used as a substitute for referring to actual legislation, AASs and FRDs that are relevant to the entity.**

Further, Appendix 1(d) *Analysis of disclosures made in Victorian financial publications* provides a helpful cross reference guide between the types of disclosure found in the Model's financial statements and notes with those produced in the most recent financial publications for the State.

SETTING THE SCENE

A model to assist with public sector financial reporting requirements

The Model is published as the primary guide to assist public sector entities with their financial reporting requirements.

All agencies are required to table audited annual reports in Parliament in compliance with *Financial Management Act 1994* (FMA), including the Standing Directions (SD) of the Minister for Finance.

Those annual reports, which consist of the Report of operations and financial statements have to be prepared in accordance with:

- Australian Accounting Standards (AAS), which includes Interpretations;
- Financial Reporting Directions (FRD);
- Budget Operations Framework (BOF);
- Financial Reporting Operations Framework (FROF); and
- Performance Management Framework (PMF).

To assist public sector entities in discharging their responsibilities, this Model adopts the financial statement formats that align with the general government sector and whole of government formats.

The Model illustrates the minimum disclosure requirements in accordance with applicable AASs and FRDs.

Key reminders

Do:

- apply the disclosure requirements included within the Model for all government departments (mandatory);
- refer to the Model for all other public sector entities (encouraged);
- apply judgement in determining whether the Model needs to be modified to meet entity specific reporting requirements;
- apply all AASs and FRDs – even those issued after the publication of the Model;
- apply FRD 30D specifications when preparing annual reports; and
- determine which disclosures could be omitted because they are not quantitatively or qualitatively material.

Don't:

- use the Model as a template – it provides presentation formats and illustrative disclosures that need to be modified for the public sector specific circumstances and requirements; and
- use the Model as a substitute for referring to AAS and FRDs.

The model financial statements are now streamlined

Following on from 2016-17, the Model financial statements have been presented in a streamlined format, which is aligned with the changing financial reporting landscape.

Streamlined financial reporting aims to present information in a more user-friendly way, achieved by:

- structuring the financial statements into sections that provide an insight into how management views the entity and its operations;
- providing all relevant information in connection with a particular financial statement line item in one place (amounts, accounting policies and judgements just to name a few);
- cutting down on duplication and disclosures that do not provide relevant information; and
- removing disclosures that are not material.

Using the 2015-16 Model financial statements as a starting point, thoughts and considerations were put into how the structure could be changed to represent the same information contained in previous Model financial statements, in a more user-friendly manner. Considering all departments need to apply the principles contained within the Model financial statements, deviation from the note structure contained in this report is required to be approved by the DTF Accounting Policy team.

Although streamlining is a continuous process, the 2017-18 Model financial statements maintains the significant shift in the presentation of financial statements that was implemented in the prior year.

Setting out the disclosures and guidance

The reporting requirements as set out in this Model are presented as follows:

1. Illustrative disclosures are presented first – predominantly in black text and for a fictitious department: *The Department of Technology* – these disclosures provide the minimum requirements for compliance with AASs and FRDs.
2. Guidance (or commentary) is provided on the illustrative disclosures [in blue and with a border around the guidance](#) and also includes references to more detailed guidance, where applicable, to provide additional examples and illustrations.
3. Source references are highlighted throughout the illustrative disclosures and the guidance, and are prefixed by AASB, FRD, SD and/or FMA.

Where to go for additional information on streamlined financial statements

The following Guidance Sections have been included in the Model to provide users with relevant and sufficient guidance to be able to apply the requirements in the Model:

Guidance Section 1: 'How to' guide to streamline a set of financial statements
(agencies may benefit from this guide)

Guidance Section 2: General and specific disclosure requirements, including presentation requirements (that are required in preparation of financial statements)

Guidance Section 3: What is not disclosed in the Model financial statements

Structure of the Model report and disclosure requirements

The Model is based on a fictitious Department of Technology to highlight and illustrate disclosure requirements. It is divided into the following sections.

- **Introduction**
- **Model report of operations**
- **Model financial statements (including supplementary information for the third balance sheet disclosure)**
- **Guidance Sections:**
 - Guidance Section 1 – ‘How to’ guide to streamline a set of financial statements;
 - Guidance Section 2 – General and specific disclosure requirements, including presentation; and
 - Guidance Section 3 – What is not disclosed in the Model financial statements.
- **Appendices:**
 - Appendix 1 – Extracts of whole of government financial statements and analysis of disclosures;
 - Appendix 2 – Budgetary reporting: Explanation of material variances between budget and actual outcomes;
 - Appendix 3 – AASB 10 Consolidated Financial Statements checklist – Control analysis for Victorian public sector entities;
 - Appendix 4 – Interests in subsidiary and unconsolidated structured entities;
 - Appendix 5 – Annual leave provisions;
 - Appendix 6 – Fair value measurement indicative expectations;
 - Appendix 7 – Practical classification guide between transactions and other economic flows;
 - Appendix 8 – Declaration Certificate for executives – the certificate for declaration of related party transactions in compliance with AASB 124;
 - Appendix 9 – AASB 124 Related Party Disclosures – entity management checklist;
 - Appendix 10 – When to account for surplus assets as ‘held for sale’;
 - Appendix 11 – AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-For-Profit Entities – assessment checklist;
 - Appendix 12 – AASB 9 Financial Instruments – Assessment checklist;
 - Appendix 13 – AASB 16 Leases – assessment checklist;
 - Appendix 14 – Summary of new/revised accounting standards effective for current and future reporting periods; and
 - Appendix 15 – AASB reporting requirements for For-Profit and Not-for-Profit entities in the Victorian Public Sector.

Departments are expected to use the *Model report of operations* as a guide to minimum disclosure requirement in preparing their year in review.

With regard to the *Model financial statements*, **departments are required** to present their financial statements and notes in the same manner and format as shown in the *Model financial statements*.

The Model has been prepared in accordance with the FMA, and has been updated incorporating the latest applicable requirements of AASs and FRDs that were available as at 1 March 2018 for the reporting period ending 30 June 2018. Any additional pronouncements applicable to the 2017-18 reporting period that become available post-publication of this Model will be issued by DTF in the form of FRD 120L [pending] *Accounting and reporting pronouncements applicable to the 2017-18 reporting period* closer to year end.

It is assumed in the Model that Accounting Standards issued by the AASB, which are not yet effective, have not been early adopted as FRD 7B *Early Adoption of Authoritative Accounting Pronouncements* does not permit early adoption. This policy is outlined in the *Model financial statements* under Note 9.13 *Australian Accounting Standards issued that are not yet effective*.

The Model focuses on illustrating disclosure requirements for departments. Therefore the Model may not cover all disclosure requirements that might be applicable to non-departmental entities. In particular, it does not illustrate income tax equivalent entries applicable to entities in the National Tax Equivalent Regime.

‘Keys’ used in the illustrations and guidance

Disclosure illustrations in both the *Model report of operations* and the *Model financial statements* are presented in **black** text. These illustrations represent **the minimum** disclosures that Model users shall include in their annual reports.

Guidance in relation to these illustrations are provided and presented in **blue** text. The guidance mainly provides additional clarifications on the preparation, presentation and disclosure requirements of the relevant pronouncements related to these illustrations.

Source references

References to the relevant requirements are provided in the left hand column of each page of this Model. If further clarity is required as to the appropriate treatment, examination of the source of the disclosure requirement is recommended.

The current Model also uses 'New' or 'Revised' in the source reference column next to relevant sections to indicate where changes have occurred since the previous edition of the Model. Abbreviations used in the Model are as follows:

| Reference | Title |
|-----------|--|
| AASB | Australian Accounting Standards Board |
| AASs | Australian Accounting Standards, which include Interpretations |
| DoT | Department of Technology (fictitious department) |
| FRD | Financial Reporting Direction |
| SD | Standing Direction |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |

The design and printing of annual reports

A financial reporting direction, FRD 30D *Standard requirements for the publication of annual reports* on the design, layout and printing of annual reports prescribes specification requirements for the design of annual reports, use of colour and images, standard sizing, paper stocks and other publishing requirements.

The purpose of this FRD is to reduce the costs of annual reports for public sector entities, reduce the environmental impact of producing annual reports – both in terms of the type of stock used and elements of the process to make them recyclable – and to ensure a more consistent approach in the way public sector annual reports are presented.

All departments and government agencies defined as public bodies must comply with the requirements of this FRD. FRD 30D can be found on the DTF website www.dtf.vic.gov.au under Financial Reporting Directions.

DEPARTMENT OF TECHNOLOGY – MODEL REPORT OF OPERATIONS

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About the model report of operations

SD5.2
FRD 22H

The report of operations is an integral part of a **department's** annual report. It provides users with general information about the entity and its activities, operational highlights for the reporting period, future directions and other relevant information not included in the financial statements. It is a document akin to the directors' report, which forms a significant part of the annual reports of companies.

The report of operations complements the information presented in the financial statements by providing explanation and analysis of the department's performance, financial position and cash flow through an objective and balanced discussion and analysis. To that end, it should be comprehensive and, where appropriate, adopt a narrative form written in a clear style, and supported by figures and graphics that assist understanding of the matters discussed. The report of operations should be balanced and objective, and free from bias. In keeping with this requirement, clear design of the annual report may help communicate this message.

FRD 30D

Additionally, Financial Reporting Direction (FRD) 30D *Standard requirements for the publication of annual reports* provides specifications on the design of annual reports, use of colour and images, standard sizing, paper stocks, and other publishing requirements, which focus on reducing publication cost and environmental impact, and ensuring greater consistency in government annual reports. The FRDs can be found on the DTF website www.dtf.vic.gov.au under FRDs.

The *Model report of operations* incorporates reporting requirements that are current at the time of publication. In addition to complying with the *Model report of operations*, departments should ensure their report of operations complies with all new and revised legislative pronouncements that may be issued and applicable subsequent to the publication of the Model.

While the *Model report of operations* illustrates examples of disclosures required under FRDs, **it does not necessarily illustrate all disclosures** that might be appropriate to report an agency's objectives, activities and performance. Officers of a department or entity must use their judgement to identify any other matters that should be reported to ensure the report of operations is complete and objective.

Entities other than departments need to be aware of the FRDs and legislation that affect them specifically, as not all pronouncements in the Model are applicable to all public sector entities. Professional judgement and awareness of an entity's reporting obligations are to be applied when using the Model as a reference point.

Source reference

Presentation of report of operations

SD5.2

Presentation of the report of operations as a discrete section of a department's annual report ensures the information required is presented in one place. However, a department has the option to select the format that best complements the presentation of its annual report as a whole.

Contents of report of operations

The report of operations, for the purposes of the Model, illustrates the minimum disclosures required by the *Standing Directions* (SD) of the Minister for Finance and FRDs, as listed in *Disclosure Index* on page 74, as well as sections of the *Financial Management Act 1994* (FMA) and Premier's Circulars. Given the different nature of activities carried out by departments, varying levels of detail will be needed to fulfil particular requirements of the SD, FMA, FRDs and Premier's Circulars. As with the financial statements, professional judgement is required to identify relevant significant matters and present them in a way that properly informs the reader.

Specific requirements under Standing Direction 5.2

SD5.2.1(a)

(a) The report of operations must be prepared in accordance with the requirements of the FMA, SD and associated instructions, applicable Australian Accounting Standards and FRDs.

SD5.2.1(b)

(b) The report of operations for government departments must be presented in accordance with the guidelines contained in the Model.

SD5.2.3

(c) The report of operations must be signed and dated by the Responsible Body or a member of the Responsible Body.

The information and analysis contained in the report should be balanced and objective, free from bias and complete, dealing even-handedly with positive and negative aspects of operations, financial condition, risks and opportunities. While good design and presentation assists communication efficiency, effectiveness and value for money must also be considered.

The format given in the Model may not be suitable for all departments, because departments differ in both structure and outputs. Each department may choose where they report disclosures as long as it complies with all relevant reporting directions and legislation.

For ease of understanding and clarity, it is sometimes more appropriate to include detailed information in an appendix. Where this is done, the report of operations should include a summary of the information together with a cross reference to the applicable appendices.

Recommendation
42, PAEC Report
109

Disclosure requirement – estimates presented as actual results

Presenting an estimate in the departmental annual report can be appropriate under some circumstances, such as when actual results are not available at the time of compiling the annual report. It is crucial users of the report of operations appreciate where estimates are presented as actual results, especially if significant variances are expected between the estimates presented in the annual report and the actual result communicated subsequently.

Therefore, departments are required to disclose in the report of operations where estimates are presented as actual results for clarification purposes.

Source reference

Declaration in report of operations

SD5.2.3

Responsible Body's declaration

In accordance with the *Financial Management Act 1994*, I am pleased to present the Department of Technology's Annual Report for the year ending 30 June 2018.

[Signature]

J Smith
Secretary
Department of Technology
14 August 2018

Guidance – Responsible Body's declaration

SD5.2.3

Legislative and documented references

SD 5.2.3 requires the report of operations to be signed and dated by the Responsible Body or a member of the Responsible Body. For an agency with a statutory board or equivalent governing body established by or under statute, the Board or governing body is the Responsible Body. For an agency without a statutory board or equivalent governing body established by or under statute, the Accountable Officer is the Responsible Body.

Guidance

The Responsible Body sign off is usually the first item in the report of operations, and formally presents the report in accordance with requirements in the *Financial Management Act 1994*.

Source reference

SECTION 1: YEAR IN REVIEW

Guidance – Year in review (overview)

Legislative and documented references

FRD 22H

FRD 22H requires agencies to disclose general and financial information to outline and explain their operations and activities for the reporting period.

General information includes the agency's activities, operational highlights for the reporting period, future initiatives and other relevant information not included in the financial statements. General information should also include agencies' purpose, functions, powers and duties, which are linked to a summary of their activities, programs and achievements for the reporting period.

Under the Government's performance management system, the department's medium-term departmental objectives should clearly align with its key 'purpose, functions, powers and duties'. Goods and services (outputs) funded by the Government and delivered in a financial year should support the achievement of departmental objectives over time. The effectiveness of a department in delivering on its objectives will be assessed through the reporting of objective indicators.

In addition, FRD 22H requires that the manner of establishment of the entity and relevant ministers be included, as well as the nature and range of services provided, including the communities served.

FRD 22H

Guidance

The year in review section is the opening section of a department's annual report. The introduction should clearly articulate the department's vision, mission, values, high level purpose, strategic priorities and key achievements.

Reference should be made to the *progress towards achieving departmental objectives*, *performance against output performance measures* and *financial review* sections when commenting on how the department has achieved its targets. This section should also include the Secretary's report, which outlines the achievements by the department for the year and a reference to the aims of the department for the year ahead.

Our vision

The department's vision is for Victoria to be recognised as the highest performing, most innovative and trusted technological state in Australia.

Our mission

As a first point of call for public sector technological improvement, to proactively lead and engage the Victorian public sector in continually improving services, standards, governance and workforce development.

Our values

Be open: Listen to and consider the views and opinions of our people. Provide accurate and objective information.

Work together: Demonstrate effective team behaviours. Collaborate across and outside Department of Technology to achieve desired outcomes. Value the contributions of teams as a whole.

Respect others: Treat others as we would like to be treated. Make intelligent use of the range of knowledge and skills held by our people. Apply work practices effectively to our people.

Make a difference: Strive to achieve outcomes that make a difference. Plan how best to achieve our desired outcomes. Measure our impact and apply learning from evaluations to future actions.

Lead with purpose: Provide a clear direction for the people we lead. Help people get their jobs done. Set an example by our actions.

Focus on safety: Be aware of safety requirements, potential hazards and procedures in the work area. Take action to minimise or eliminate hazards. Be mindful of potential health and safety risks in all decision making.

Source reference

Secretary’s report

[Useful guidance regarding appropriate content can be found in the ‘Year in review’ commentary]

[Signature is optional]

Jane Smith
Secretary

Purpose and functions

The Department of Technology (‘the Department’) was established in 1998 to centralise and focus strategic policy advice to the Government and the Victorian community in regards to the adoption of new technology. With the establishment of the Department, the Government was able to centralise its research and development efforts, particularly research and development activities in respect of biological technology, and the provision of information technology and telecommunication (IT&T) activities to other government departments. The Department is now recognised as a leading-edge provider of technical and strategic advice and support on technology and IT&T issues.

The Department’s function is to ensure the Government and the general Victorian community obtain the benefits of technology, including biological technology, so as to enhance the economic and social prosperity of the community. As a central government agency, the Department plays an important role in advising the Government on technology issues and the provision of technological services for the community.

Changes to the Department during 2017-18

| 2017-18 departmental objective | 2017-18 output | Reason for change |
|--|---|---|
| Improve the quality of life of Victorians through eradicating certain diseases and enhancing nutrition | Research and development of biological technology | New departmental objective and associated output resulting from machinery of government administrative restructure – 2 August 2017. |
| 2016-17 departmental objective | 2016-17 output | Reason for change |
| [Insert 2016-17 departmental objective if different from current year] | New technology administration | Transferred departmental objective and associated output resulting from machinery of government administrative restructure – 2 August 2016. |

As a consequence of policy decisions announced by the Government on 2 August 2017, changes were made to the departmental objectives and output structure of the Department during the financial year.

This report of operations presents the progress made by the Department towards achieving its departmental objectives and full year performance of the outputs, received through the administrative restructure, for which the Department was responsible at the end of the financial year. Correspondingly, the departmental objective and full year performance of the output transferred to another department is reported in the transferee department’s report of operations. However, it is the responsibility of the transferor to ensure all financial accounts and reports of the transferred outputs were kept and provided for the purposes of the *Financial Management Act 1994* until 31 August 2017.

[Departments should also outline changes to departmental objectives and output structure as a result of an internal review of its medium-term objectives and output structure as part of this disclosure.]

As part of the administrative restructure, the Department is now responsible for achieving the departmental objective of improving the quality of life of Victorians through eradicating certain diseases and enhancing nutrition by delivering services associated with the output Research and Development of Biological Technology. Responsibility for this objective and output was previously held by the Department of Natural Resources. All output performance measures are now reported by the Department for the full financial year.

FRD 22H

Source reference

The Department was previously also responsible for achieving [insert affected departmental objective] with the delivery of services associated with the output New Technology Administration. As a result of the administrative restructure, the affected departmental objective and indicator and all output performance measures are now reported by the Department of Cabinet Administration.

Guidance – Changes to a department during 2017-18

Guidance

Expanded guidance on machinery of government changes is provided as follows:

- for illustration on disclosure of comparatives for assets and liabilities transferred, refer to illustrative disclosure in Notes 4.1 and 4.2 of the Model financial statements, in the table disclosure of disaggregated controlled and administered items; and
- for general guidance on machinery of government changes and disclosure in the financial statements, refer to illustrative disclosure and guidance provided in Note 4.3 of the Model financial statements.

Any machinery of government changes impacting on departmental objective and output performance reporting needs to be described in the report of operations. The departmental objective and output performance reporting should be disclosed **for the full year** by the department administratively responsible for the functions and output delivery **at the end of the financial year**.

For a department that is abolished because of machinery of government changes, the abolished department is also required to report on the departmental objectives and output performance up to the date it ceases to exist in its final report of operations.

Note: if only part of an output is transferred, reporting should be on the relevant performance measures that relate to the function being transferred.

Detailed guidance in planning and implementing machinery of government changes are contained in the *VPS operating manual on machinery of government changes* which can be found at www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/VPS-operating-manual-on-machinery-of-government-changes

Departmental objective and output performance reporting of the transferee department

As the transferee department is administratively responsible for the outputs at the end of the financial year, it will now report the relevant departmental objective and associated indicator(s), output and associated output performance measures received due to the machinery of government changes for the full year, consistent with FRD 8D. The transferee department will provide commentary on all impacted outputs and associated departmental objectives explaining:

- (a) the departmental objective and associated indicator(s) and output and associated performance measures that were transferred to the department;
- (b) details of the transferor department; and
- (c) the date on which the administrative arrangement occurred.

Departmental objective and output performance reporting of the transferor department

As the transferor department will no longer be administratively responsible for the outputs at the end of the financial year, it does not need to report on the transferred output and associated output performance, related departmental objective (whole or in part) and associated indicator(s) transferred to another department. The transferor department will need to provide commentary on all impacted departmental objectives and outputs explaining:

- (a) the outputs that were transferred to another department and related departmental objective (whole or in part) and indicator(s);
- (b) details of the transferee department; and
- (c) the date on which the administrative arrangement occurred.

Note: The departmental objective and output performance reporting as described above is different from the financial reporting of an administrative restructure. Entities must continue to recognise assets, liabilities, income and expenses arising from the transferred/received outputs during the period, in the financial year in which entities were responsible for those outputs.

FRD 8D

Source reference

Recommendation
39, PAEC Report
on the 2015-16
Budget Estimates**Direct costs attributable to machinery of government changes**

In August 2017, the Government issued an administrative order restructuring some of its activities via machinery of government (MoG) changes, taking effect from 1 September 2017. As result of the MoG changes, the departments have incurred the following additional direct costs:

| <i>Department of Technology</i> | <i>Costs incurred</i> | <i>Anticipated future costs (1 July 2018 onwards)</i> |
|---------------------------------|-----------------------|---|
| Direct costs | | |
| Consultants and contractors | .. | .. |
| Relocation | 7 750 | 2 501 |
| Telephony | .. | .. |
| IT and records management | 4 111 | .. |
| Rebranding | 6 505 | 2 430 |
| Redundancies | .. | .. |
| New staff | .. | .. |
| Other | .. | .. |
| Total | 18 366 | 4 931 |

Direct costs incurred from 1 July 2017 to 30 June 2018 that are attributable to the 2 August 2017 MoG change mainly relate to [\[insert detail\]](#).

Anticipated future costs attributable to the MoG change mainly relate to [\[insert detail\]](#).

There were no direct costs attributable to the MoG change that have been incurred by the entities that are consolidated into the department's annual report pursuant to section 53(1)(b) of the *Financial Management Act 1994*.

Guidance – Direct costs attributable to machinery of government changes

Direct costs are the costs that can be attributed solely to implementing the MoG change and are incurred over and above business-as-usual (BAU).

For example, telephony charges that have been incurred for ongoing activities or operations of the department should not be included in the direct costs attributable to MoG changes as those are not additional costs incurred over and above BAU which are solely attributable to MoG change.

Anticipated future costs that meet the definition of direct costs above but yet to be incurred shall be reported separately.

Indirect costs are those associated with redirected staff time or lost productivity as a result of splitting, merging and realigning back-office functions (i.e. HR, procurement, legal and finance).

As the MoG changes are largely an administrative process, productivity losses in service delivery or advisory functions are generally negligible.

Source reference

PORTFOLIO PERFORMANCE REPORTING – NON-FINANCIAL SECTION

FRD 8D

Recommendation
15, PAEC Report
1182016-17 Budget
Paper No. 3
Service Delivery

Departmental objectives, indicators and outputs

The medium-term departmental objectives, associated indicators and linked outputs as set out in the 2017-18 State Budget Paper No. 3 *Service Delivery* are shown in Table 1.

Table 1 – Departmental objectives, indicators and linked outputs

| <i>Departmental objectives</i> | <i>Indicators</i> | <i>Outputs</i> |
|---|--|---|
| [Departments to insert specific departmental objectives as published in the <i>2017-18 Budget</i>] | [Departments to insert specific indicators as published in the <i>2017-18 Budget</i>] | [Departments to insert specific outputs as published in the <i>2017-18 Budget</i>] |

Reporting progress towards achieving departmental objectives in the report of operations

The Department seeks to measure the progress of the Victorian public sector in adopting new technology in delivering services to the community.

This section reports the Department's progress on its departmental objectives through a range of indicators. Trends in these indicators demonstrate the Department's performance.

Departmental objective 1

[Departments should describe the departmental objective to make clear the department's role and contribution to the broader context of their environment. In addition, departments should also include how this departmental objective and associated indicators contribute towards achieving the government priorities where there is a clear government statement of intention. (This may include government announcements and commitments.)]

[Departments should include a performance progress story for departmental objective 1 based on the evaluation and interaction of trend information for the associated indicators provided in this section. Include a description of the environment (past, current and an indication of the future), any relevant issues/shortcomings affecting the performance story as demonstrated by the indicators that should be taken into account, including any areas for future improvements].

[Departments should also disclose any key initiatives and/or projects that have contributed to changes in the associated indicators. Where appropriate, departments may also introduce the revised indicators as published in the *2017-18 Budget* to help explain performance.]

[Departments should include the relevant trend information for each indicator associated with departmental objective 1. This information should support the performance story provided above in this section. The indicators should also be supported by outputs and associated performance measures]. However, in very limited circumstances, the ability to quantify and provide data series may not be possible or relevant (e.g. policy advice). In that case, departments should provide relevant information or supporting evidence to report progress.]

Table 2 – Progress towards objective 1

| <i>Indicator</i> | <i>Unit of measure</i> | <i>2014-15</i> | <i>2015-16</i> | <i>2016-17</i> | <i>2017-18</i> |
|------------------|------------------------|----------------|----------------|----------------|----------------|
|------------------|------------------------|----------------|----------------|----------------|----------------|

[Departments should include the relevant outputs and their performance covered under the 'Performance against output performance measures' section to strengthen the link between the departmental objectives and outputs performance reporting].

Recommendation
17, PAEC Report
on 2013-14 and
2014-15 Financial
and Performance
Outcomes

Source reference

Departmental objective 2

[Departments should describe the departmental objective to make clear the department’s role and contribution to the broader context of their environment. In addition, departments should also include how this departmental objective and associated indicators contribute towards achieving the government priorities where there is a clear government statement of intention. (This may include government announcements and commitments.)]

[Departments should include a performance progress story for departmental objective 2 based on the evaluation and interaction of trend information for the associated indicators provided in this section. Include a description of the environment (past, current and an indication of the future) and any relevant issues/shortcomings affecting the performance story as demonstrated by the indicators that should be taken into account, including any areas for future improvements.]

[Departments should also disclose any key initiatives and/or projects that have contributed to changes in the associated indicators. Where appropriate, departments may also introduce the revised indicators as published in the *2018-19 Budget* to help explain performance.]

[Departments should include the relevant trend information for each indicator associated with departmental objective 2. This information should support the performance story provided above in this section. The indicators should also be supported by outputs and associated performance measures. However, in very limited circumstances, the ability to quantify and provide data series may not be possible or relevant (e.g. policy advice). In that case, departments should provide relevant information or supporting evidence to report progress towards achieving the objective].

Table 3 – Progress towards objective 2

| Indicator | Unit of measure | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|-----------|-----------------|---------|---------|---------|---------|
|-----------|-----------------|---------|---------|---------|---------|

[Departments should include the relevant outputs and their performance covered under the ‘Performance against output performance measures’ section to strengthen the link between department objectives and outputs performance reporting.]

Guidance – Reporting progress towards achieving departmental objectives in the report of operations

In May 2013, the Government introduced the use of objective indicators in the 2013-14 Budget Paper No. 3 *Service Delivery* (BP3) to provide information on progress in the achievement of objectives. The government also made a commitment in BP3 to report progress figures in each department’s annual report.

Guidance

In this section, Departments should communicate the performance story for each departmental objective based on the indicator information over time (minimum four years). Although not mandatory, developing a baseline and medium-term target/standard for the indicators would facilitate communicating performance progress. In some instances, appropriate graphical representation of this information would potentially enhance performance reporting, for example:

In 2017-18, there were a total of 60 000 Victorians being serviced by the department. The number of Victorians using these services has decreased by 14 per cent from 70 000 over the past four years (see Figure 1).

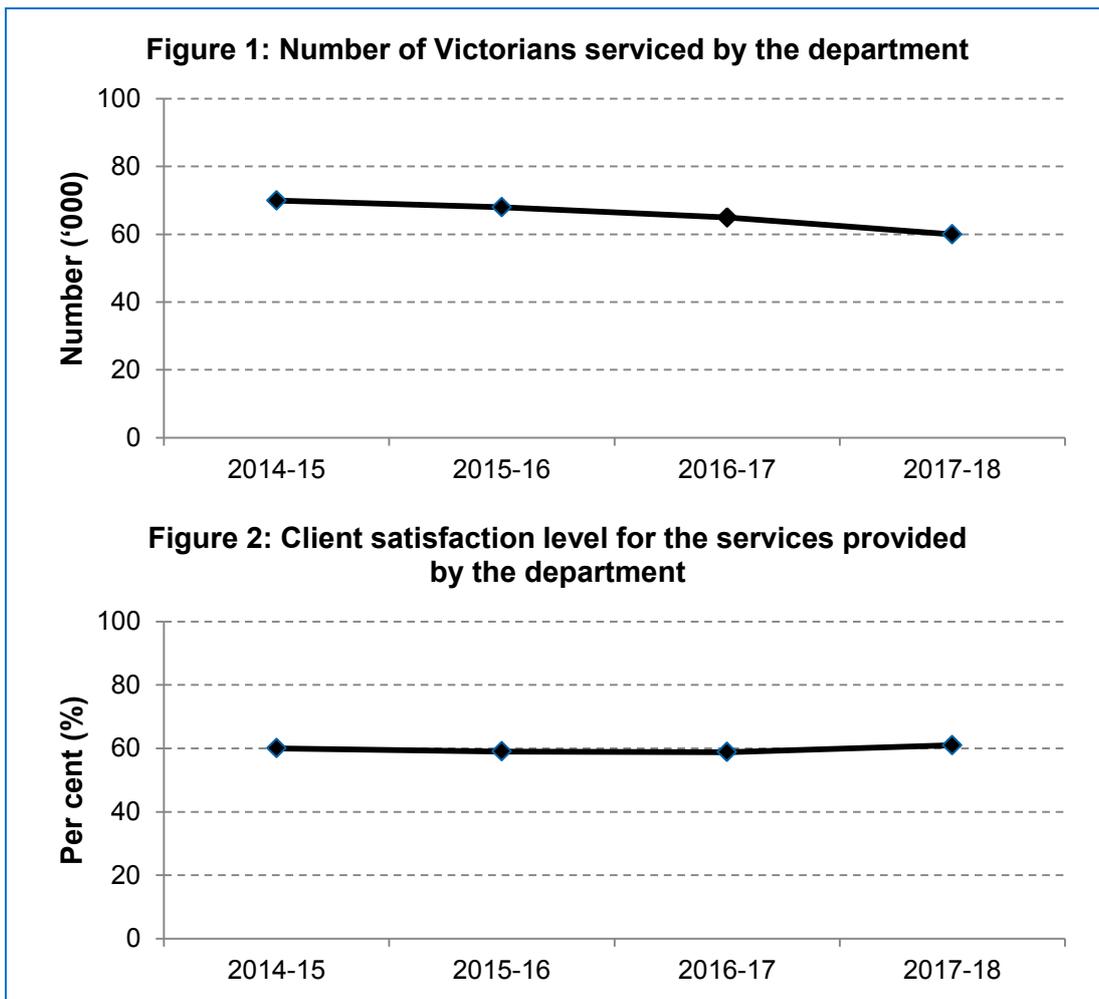
In 2017-18, 61 per cent of clients were satisfied with the level of services provided. This result was above the national average of 60 per cent, and represented a 2.2 per cent increase from 2016-17. There has been minimal variation in satisfaction levels over the four years (see Figure 2).

The 2017-21 corporate plans disclosed key initiatives important to the achievement of departmental objectives. **Departments are required to report against the key initiatives listed in the 2017-21 corporate plan in their annual reports from 2017-18.**

Recommendation 17, PAEC Report on 2013-14 and 2014-15 Financial and Performance Outcomes

Revised Recommendation 17, PAEC Report on 2013-14 and 2014-15 Financial and Performance Outcomes

Source reference



Performance against output performance measures

[Departments should include the output performance information under the relevant departmental objective to strengthen the link between department objectives and outputs performance reporting.]

FRD 8D

The following sections outline details of the outputs provided by the Department to the Government, including performance measures and costs for each output, and the actual performance results against budgeted targets by output for the Department over the full year ending 30 June 2018.

FRD 22H

Guidance – Key initiatives and projects

Entities are required to provide information about their key initiatives and projects, including any significant changes in key initiatives and projects from previous years and expectations for the future periods. Key initiatives and projects refer to an entity’s initiatives and projects that are identified in their corporate plan or the equivalent. Each year the discussion should include outcomes achieved on those key initiatives and projects, and any significant changes to the key initiatives and projects that have been previously disclosed or reported upon. The changes that have a material impact on the outcomes or results should also be discussed, and this may include timeline, scope and costs relevant to the key initiative or project.

An entity may describe its key initiatives and projects in relation to its outputs where appropriate, preferably in the section where it provides details on the individual outputs, as shown above. Where an initiative/achievement links to multiple outputs, details should be provided under the output it contributes most to. If necessary, other corresponding outputs may provide reference to it.

Source reference

FRD 8D

Strategic policy advice

The objective of this output is to improve the economic performance of the State through the application of leading edge technology and to promote leadership in research and innovation in sciences.

This output makes a significant contribution to the achievement of the departmental objective of [Departments to insert the relevant departmental objective].

Key initiatives and projects

Since 1 July 2017, the Department has initiated the Technology Trade and Innovation Program, which assists businesses to develop and integrate new technologies.

Up to 30 June 2018, the Department has provided strategic, timely and comprehensive analysis and advice to 40 Victorian businesses. In the next two years, the Department will continue to monitor and support this program, which is expected to represent an additional \$29 million investment to the State, and create 219 new jobs in 2019-20.

FRD 22H
Recommendation
17, PAEC Report
107Recommendations
12 and 32, PAEC
Report 107To align with the
table format in
Budget Paper
No. 3 Service
DeliveryRecommendations
19 and 36, PAEC
Report 118

| Performance measures | Unit of measure | 2017-18 actual | 2017-18 target | Performance variation (%) | Result ^(a) |
|--|-----------------|----------------|----------------|---------------------------|-----------------------|
| Quantity | | | | | |
| Provision of policy briefings | number | 530 | 500 | 6 | ✓ |
| <i>Policy briefings are provided on an as needed basis, which makes it difficult to accurately predict how many briefings are required for the year. This year the provision of briefings has been higher than targeted because of a number of new technological developments requiring additional briefings to the Minister, as well as additional policy briefings associated with the new output research and development of biological technology.</i> | | | | | |
| Deliver two long-term research projects | number | 2 | 2 | 0 | ✓ |
| Quality | | | | | |
| Client satisfaction rating | per cent | 95.0 | 90.0 | 5.6 | ✓ |
| <i>The rating is based on surveys completed by clients. The actual survey rating received exceeded the targeted survey result mainly due to client satisfaction with the timeliness of the briefings provided, and client satisfaction with an improved format and style of briefings.</i> | | | | | |
| Policy briefings addressed key issues | per cent | 91.0 | 91.0 | 0 | ✓ |
| Timeliness | | | | | |
| Key deliverables managed on time | per cent | 100.0 | 100.0 | 0 | ✓ |
| Responses to Ministerial correspondence delivered within agreed timeline | per cent | 100.0 | 100.0 | 0 | ✓ |
| Cost | | | | | |
| Total output cost | \$ million | 27.6 | 32.5 | -15 | ✓ |
| <i>The variance in total output cost between actual and target reflects the impact of efficiency and productivity initiatives carried out by the Department during the year. Productivity gains include improved turnaround times for policy briefings and stabilisation of the workforce.</i> | | | | | |

Note:

(a) ✓ Performance target achieved or exceeded. [A variance exceeding 5 per cent or \$50m (cost measures only) is a significant variance that requires an explanation, including internal or external factors that caused the variance.]

Revised
Recommendation
11, PAEC Report
on the 2015-16
Financial and
Performance
Outcomes

Source reference

FRD 8D

Information technology and telecommunication services

The objective of this output is to provide efficient and economical operation of government activities to ensure optimal use of resources, and also to provide leadership in information technology and telecommunication services (IT&TS) that promotes Victoria as a centre of excellence in the application of new information technology, and has the potential to contribute to the economic growth of the State.

This output makes a significant contribution to the achievement of the departmental objective of [Departments to insert the relevant departmental objective].

Key initiatives and projects

[Departments to disclose the key initiatives and projects relevant to this output. Refer to page 19 for additional guidance.]

| Performance measures | Unit of measure | 2017-18 actual | 2017-18 target | Performance variation (%) | Result ^(a) |
|--|-----------------|----------------|----------------|---------------------------|-----------------------|
| Quantity | | | | | |
| New clients gained | number | 471 | 500 | 6 | ✓ |
| Database system report delivered | | 15 | 12 | 25 | ✓ |
| <i>New services received through machinery of government changes resulted in more system reports required to be delivered.</i> | | | | | |
| Quality | | | | | |
| Service provision rating (based on client agencies survey data) | per cent | 90.0 | 80.0 | 12.5 | ✓ |
| <i>Result reflects the effectiveness of this service provision in addressing the high and complex needs of this client group.</i> | | | | | |
| Timeliness | | | | | |
| Broadband network queries responded to within six hours of receipt (number of queries in a day) | per cent | 90.0 | 90.0 | 0 | ✓ |
| Cost | | | | | |
| Total output cost | \$ million | 45.7 | 40.5 | 12.8 | ■ |
| <i>The variance in total output cost between actual and target is due to the increase in demand caused by the provision of new services.</i> | | | | | |

Note:

- (a) ✓ Performance target achieved or exceeded. [A variance exceeding 5 per cent or \$50m (cost measures only) is a significant variance that requires an explanation, including internal or external factors that caused the variance.]
- Performance target not achieved – exceeds 5 per cent or \$50m (cost measures only) variance. [This is a significant variance that requires an explanation, including internal or external factors that caused the variance.]

Revised
Recommendation
11, PAEC Report
on the 2015-16
Financial and
Performance
Outcomes

Source reference

FRD 8D

Research and development of biological technology

The output focuses on the development of new biological technology and supporting its implementation by businesses to achieve better quality agricultural products. Improved agricultural products are also considered to contribute to the economic growth of the State.

This output makes a significant contribution to the departmental objective of improving the quality of life of Victorians through eradicating certain diseases and enhancing nutrition.

[Departments to insert the relevant departmental objective.]

Key initiatives and projects

[Departments to disclose the key initiatives and projects relevant to this output. Refer to page 19 for additional guidance.]

| Performance measures | Unit of measure | 2017-18 actual | 2017-18 target | Performance variation (%) | Result ^(a) |
|--|-----------------|----------------|----------------|---------------------------|-----------------------|
| Quantity | | | | | |
| Businesses supported with implementation of new technology | number | 100 | 120 | -16.7 | ■ |
| <i>The actual outcome in 2017-18 is significantly lower than the target due to delays in the internal tender process – there was a lack of consensus between businesses and the Government on payment terms in tender proposals.</i> | | | | | |
| Laboratories with fully-integrated new research platform | number | 10 | 10 | 0 | ✓ |
| Six new patents sought by partner agencies | number | 6 | 6 | 0 | ✓ |
| Quality | | | | | |
| New technology met business requirements | per cent | 80.0 | 80.0 | 0 | ✓ |
| <i>This measure is based on surveys completed by clients.</i> | | | | | |
| New platform key success factors | per cent | 80.0 | 80.0 | 0 | ✓ |
| Timeliness | | | | | |
| Projects managed within agreed timelines | per cent | 87.0 | 91.0 | -4.4 | ○ |
| Cost | | | | | |
| Total output cost | \$ million | 50.6 | 51.2 | -1.2 | ✓ |

Note:

- (a) ■ Performance target not achieved – exceeds 5 per cent or \$50m (cost measures only) variance. [This is a significant variance that requires an explanation, including internal or external factors that caused the variance.]
- ✓ Performance target achieved or exceeded. [A variance exceeding 5 per cent or \$50m (cost measures only) is a significant variance that requires an explanation, including internal or external factors that caused the variance.]
- Performance target not achieved – within 5 per cent or \$50m (cost measures only) variance.

Discontinued operation

On 28 March 2018, the Minister for the portfolio, the Hon. John Bristol MP, approved and announced a detailed formal plan to discontinue the activities of the Technology and Communication Office under the Strategic Policy Advice output. The discontinuation of the Technology and Communication Office activities is consistent with the Department's long-term policy to promote the adoption of new technology and monitor their appropriate use. The departmental objective indicator [insert objective indicator(s) the discontinued activities contributed to] will be [removed/adjusted] as a result of this decision. The discontinuation was completed by 30 June 2018.

Revised
Recommendation
11, PAEC Report
on the 2015-16
Financial and
Performance
Outcomes

| | |
|--|---|
| Source reference | <p>Guidance – Performance against output performance measures</p> |
| FRD 8D | <p>Legislative and documented references</p> <p>FRD 8D requires departments to report on actual output performance for a government department including a comparison of the output targets published in the budget papers and actual performance for the portfolio for the corresponding financial year.</p> |
| FRD 22H | <p>FRD 22H states the report should include a ‘summary of the entity’s operational and budgetary objectives, including performance against the objectives and significant achievements’ for the current reporting period. This section also supplements a department’s fulfilment of the requirement in FRD 22H to detail the ‘purpose, functions, powers and duties’ of the entity (which is fulfilled in the earlier ‘Year in review’ section).</p> |
| Recommendation 39, PAEC Report 118 | <p>Guidance</p> <p>An introduction to this section should include an overview of the key output areas, as articulated in the budget papers, plus any explanation of changes to the output structure that occurred during the year (covered above in <i>Changes to the Department during 2017-18</i>).</p> <p>Departmental output performance reporting should therefore include:</p> <ul style="list-style-type: none"> • an overview of the key output areas for which a department is responsible for that financial year (as set out in Budget Paper No. 3 <i>Service Delivery</i> (BP3); and • detailed output performance delivery information, in particular: <ul style="list-style-type: none"> – the actual result on an output by output basis against the budget target (as per BP3) and the actual result for each quantity, quality, timeliness and cost performance measure. The output performance measures should be presented as published in the department’s output statements in BP3; – appropriate commentary for any complex output performance measures to assist readers to understand the measure and its purpose; – appropriate commentary to explain the cause of all significant or material variances (both positive and negative) between the BP3 targets and actual results (including output costs). The commentary provided should be sufficient to assist the reader in understanding variances between actual and targeted results; and – explanation of any changes to the output structure that have occurred during the financial year, such as changes arising from machinery of government administrative changes and any other changes (i.e. new output created due to a government policy decision, output name change from the previous financial year, consolidation or disaggregation of outputs from the previous financial year). |
| Recommendation 38, PAEC Report 118 | <p>The details may be shown in tabular form with some commentary on those targets that were met or exceeded and an explanation of any targets not met, as noted below.</p> <p>Significant or material variances in output performance reporting</p> <p>General criteria in determining a significant variation of output performances</p> <p>The following criteria are intended as general guidance for departments in determining whether or not to provide commentary to explain variances between budget and actual results:</p> <ul style="list-style-type: none"> • greater than five per cent (as opposed to five percentage points) increase or decrease from budget; [A percentage point is the unit for the arithmetic difference of two percentages, e.g. moving from 80 per cent to 84 per cent is a 4 percentage point increase (not a 4 per cent increase). This means if the target is 80 per cent and the expected outcome is 84 per cent, the variance is 5 per cent.] In the case of a cost performance measure, a variance of greater than a \$50 million increase or decrease from budget requires an explanation; • an explanation for the variance that arises from the implementation of new policy or existing policy, government decisions or actions; • an explanation for the variance should identify whether the factor that caused the variation was internal (a factor within the government) or external (a factor outside the government); and • an explanation for the variance that may be of public interest. |
| <p>Revised Recommendation 11, PAEC Report on the 2015-16 Financial and Performance Outcomes</p> | |

Source reference

Recommendation
27, PAEC Report
109Recommendation
32, PAEC Report
109Recommendation
19,
PAEC Report 118**Guidance – Performance against output performance measures (continued)****Specific criteria in determining a significant target variances**

- For a target that is range based – if the target is a range, a significant variance is one that falls outside the target range by 5 per cent below the lower band and 5 per cent above the higher band.
- For the target that is a date:
 - if the target reflects a statutory requirement, any variance later than the target is significant; and
 - if the target is a quarter (e.g. quarter four), anything that falls outside the target is a significant target variance.
- Departments are expected to adopt a system that incorporates the use of symbols to indicate whether:
 - the target was achieved or exceeded in a desirable way;
 - the actual result varied from the target in an undesirable direction but by less than 5 per cent; or
 - the actual result varied from the target in an undesirable direction by more than 5 per cent.
- The illustrations above used the following symbols as an example to indicate the type of variance:
 - ✓ performance target achieved – (both within 5 per cent variance and exceeds 5 per cent variance);
 - performance target not achieved – within 5 per cent variance; and
 - performance target not achieved – exceeds 5 per cent variance.

Presentation of output reporting

Departments are expected to present their output performance results in the same format as the departmental output statements contained in the corresponding BP3 Service Delivery. The format involves stating the reasons for significant variances for each category (i.e. quantity, quality, timeliness and total output cost) within the output performance tables.

Departments are encouraged to describe their progress and/or achievement of the key programs/project/activities and deliverables associated with the outputs and the impact on departmental objectives.

Discontinued output performance measures

Departments do not need to report on any PAEC approved discontinued measures. The report of operations should disclose that these output performance measures have been discontinued with PAEC's approval. Reporting of actuals against targets is not required.

Any measures that were proposed for discontinuation but were not approved by PAEC must continue to be reported.

Source reference

PORTFOLIO PERFORMANCE REPORTING – FINANCIAL SECTION

Budget portfolio outcomes

[The budget portfolio outcomes are better disclosed as an appendix in the entity's annual report].

FRD 8D

The budget portfolio outcomes provide comparisons between the actual financial statements of all general government sector entities in the portfolio and the forecast financial information (initial budget estimates) published in Budget Paper No. 5 *Statement of Finances* (BP5). The budget portfolio outcomes comprise the comprehensive operating statements, balance sheets, cash flow statements, statements of changes in equity, and administered item statements.

Recommendation 9, PAEC Report 109

The budget portfolio outcomes have been prepared on a consolidated basis and include all general government sector entities in the portfolio. Financial transactions and balances are classified into either controlled or administered categories consistent with the published statements in BP5.

FRD 8D

The following budget portfolio outcomes statements are not subject to audit by the Victorian Auditor-General's Office and are not prepared on the same basis as the Department's financial statements as they include the consolidated financial information of the following entities:

[Insert list of controlled entities or refer reader to the relevant note in the financial statements.]

[Insert relevant portfolio financial statements consistent with the corresponding BP5 presentation.]

[Please refer to Appendix 2 for illustrations on the disclosure of budget portfolio outcomes.]

Guidance – Budget portfolio outcomes

Legislative and documented references

FRD 8D states departments must include in their annual report, but not forming part of the audited complete set of financial statements, a comparison between their **initial budget estimates as presented in the portfolio financial statements published in BP5** and actual results for the portfolio for the corresponding financial year. The accountability cycle for departments commences with the publication of budget portfolio financial statements in the annual budget papers and ends with the publication of actual results in departmental annual reports.

The comparison between portfolio **budget** and actual figures must be presented as a set of financial statements in the same format and consolidation basis as those for the portfolio set out in **BP5 for that financial year**. These financial statements are to be referred to as budget portfolio outcomes. Departments must classify all entities, financial transactions and balances (income, expenses, assets, liabilities and equity) into either the departmental (controlled) or administered category as agreed with the Treasurer in the context of the financial statements published in BP5.

Guidance

The comparison between portfolio budget and actual figures must be presented as a set of financial statements in the same format and consolidation basis as those for the portfolio, set out in **BP5 for that financial year** (i.e. those figures and format used in **BP5**). **That is, the statements should disclose the original budgeted financial statements**. The section should include an introduction explaining the statements and their relationship to the budget papers. The introduction should also state that the statements are not subject to audit by the Victorian Auditor-General's Office.

From time to time, the layouts and titles of the financial statements may change in accordance with the AAS requirements. Care should be taken to ensure the presentation of the budget portfolio outcomes in the annual report reflects the title and layout of the financial statements from the corresponding BP5, with additional commentary and footnotes where appropriate.

Revised Recommendation 24, PAEC Report on the 2015-16 Financial and Performance Outcomes

Source reference

Recommendation 10, PAEC Report 109

New

Recommendation 23, PAEC Report on the 2015-16 Financial and Performance Outcomes

Recommendation 15, PAEC Report on 2013-14 and 2014-15 Financial and Performance Outcomes

Guidance – Budget portfolio outcomes (continued)**Significant or material variances in budget portfolio outcomes reporting**

Disclosure is required for any significant or material variances between the initial budget estimates presented in the portfolio financial statements published in BP5 and the actual results of the portfolio for the corresponding financial year. In particular, the Department shall explain the reasons why the variance occurred.

Variances greater than five per cent or a variance of greater than a \$50 million increase or decrease from budget requires an explanation.

Machinery of government changes

In a machinery of government year, departments are required to include the published budget, along with the revised budget with adjustments for machinery of government changes in their annual reports. The reasons for variances should be disclosed in the annual report of the portfolio entities.

FRD 22H

Departmental five year financial summary (\$ thousand)

| <i>Five year financial summary</i> | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------|----------|-----------|-----------|-----------|
| Income from government ^(a) | 93 663 | 75 078 | 110 490 | 101 311 | 100 460 |
| Total income from transactions | 107 474 | 86 260 | 112 500 | 106 263 | 104 669 |
| Total expenses from transactions | (81 252) | (77 421) | (110 000) | (100 000) | (100 000) |
| Net result from transactions ^(b) | 26 222 | 8 839 | 2 500 | 6 263 | 4 669 |
| Net result for the period ^(c) | 14 790 | 9 879 | 3 369 | 3 874 | 3 409 |
| Net cash flow from operating activities | 15 207 | 18 654 | 9 357 | 9 712 | 9 386 |
| Total assets | 239 034 | 227 787 | 227 759 | 228 314 | 227 897 |
| Total liabilities | 97 601 | 112 826 | 39 419 | 37 150 | 36 117 |

Notes:

(a) Income from government includes both output and special appropriations.

(b) The 'net result from transactions' is identical to the 'net operating balance' for the general government sector.

(c) Includes net result from discontinued operations.

Departmental current year financial review

FRD22H

Overview

[Analysis of the current year financial performance should be balanced and objective, free from bias and complete, dealing even-handedly with both positive and negative aspects of operations, financial conditions, risks and opportunities. In addition, analysis of any significant overall financial trends over the past five years could also be considered for inclusion in this section further explaining the five year financial summary table above.]

- The Victorian Government considers the net result from transactions to be the appropriate measure of financial management that can be directly attributed to government policy. This measure excludes the effects of revaluations (holding gains or losses) arising from changes in market prices and other changes in the volume of assets shown under 'other economic flows' on the comprehensive operating statement, which are outside the control of the Department.
- In 2017-18, the Department achieved a net result from transactions of \$26.2 million, \$17.4 million higher than in 2016-17. Both total income and expenses from transactions have steadily increased since 2013-14 up to 2015-16 and the net result from transactions has been relatively consistent during these periods. However, there is an uncharacteristic decline in both income and expenses from transactions in 2016-17 before stabilising again in 2017-18, mainly due to: [while this example considers the current year and past five years' performance, explanations should be kept brief in this overview section. Where possible, explanations should attribute the key drivers to related services or programs].
- The overall net result of \$14.8 million in 2017-18 is the highest in the five-year period as a result of [consider brief explanations of the key drivers from transactions and other economic flows, attributing the explanation where possible to programs or services].

Total net assets continued to grow with an increase of \$26.5 million in 2017-18 to \$141.4 million predominately reflecting the growth in total asset base, including: [consider brief explanations of key drivers, attributing the explanation where possible to programs or services].

Source reference

The decline in operating cash inflows to \$15.2 million from last year's \$18.7 million is mainly due to the Department relinquishing a joint venture to the Department of Cabinet Administration as a result of machinery of government changes. As a consequence, dividends from the venture are now received by the latter Department.

FRD 22H

Financial performance and business review

As part of the *Administrative Arrangements Order [No.XXX] 2017*, the transfer of outputs on 1 September 2017 was reflected in the financial statement of the Department as follows:

- the New Technology Administration output is included for the period 1 July until 31 August 2017. From 1 September 2017 to 30 June 2018 this output is reported by the Department of Cabinet and Administration; and
- the Research and Development of Biological Technology output is included from 1 September 2017 to 30 June 2018. From 1 July to 31 August 2017 it was reported by the Department of Natural Resources.

While the Department achieved a higher net result from transactions in 2017-18 of \$17.4 million, income dropped marginally due to funding for the new technology output from the State Government being transferred out following the machinery of government changes as outlined above. However, the reduced appropriation was largely offset by the increase in income of \$4.9 million generated by the strategic output, and the funding related to the research and development of biological technology output transferred in due to machinery of government changes.

Expenses from transactions marginally increased largely due to machinery of government changes resulting in increased expenses related to the new output received, even as the overall expenses of existing outputs have decreased. [\[Expand the information presented in the overview section drawing particular attention to certain line items in the comprehensive operating statement, and relate these where possible to key drivers from programs/services etc.\]](#) Overall 50 per cent of expenses went to payments to service providers mainly for [\[complete with a list of key programs/services\]](#).

The increase of \$4.9 million [or 50 per cent] in the net result for the period primarily reflects [\[expand the discussion presented in the overview, drawing on key drivers where appropriate from line items under transactions and other economic flows. The overall result is likely to be driven by a combination of activities including offsetting activities\]](#).

In addition, the overall comprehensive result increased due to valuation gains on property plant and equipment and certain available-for-sale financial instruments. [\[Where appropriate, the key general purpose group category of related reserves could be named as well as any key available-for-sale investments.\]](#)

FRD 22H

Financial position – balance sheet

Net assets increased by \$26.5 million over the year to \$141.4 million, mainly due to increases in total assets of \$11.2 million comprising \$19.5 million of increases in financial assets, partly offset by a reduction of \$8.3 million in non-financial assets. The increase in financial assets is mainly due to increase in cash, deposits, and receivables due to [\[describe\]](#).

The overall total of non-financial assets marginally increased due to the combined effect of decreases in plant, equipment and vehicles related to output transferred out (refer to Note 5.1 *Property, plant and equipment* within the financial statements for further details), offset by:

- acquisition of laboratories and other agricultural facilities associated with the transfer of the research and development of biological technology output;
- new research laboratories built at Mildura and Wonthaggi to study the impact of extreme weather conditions on agricultural crops and natural vegetation;
- increases due to [\[describe key drivers, e.g. addition, disposal, impairment, etc.\]](#) in plant, equipment and vehicles in the public administration and transport and communications sectors; and
- biological assets received from the new output transferred in.

Total liabilities decreased mainly due to some liabilities related to the new technology output transferred out as a result of machinery of government changes, slightly offset by liabilities recognised from the new output transferred in.

Source reference

Cash flows

The overall cash surplus of \$20.4 million for the 2017-18 financial year was a net increase of \$11.2 million compared to the previous year. This additional cash was the result of a large net cash inflow from financing activities of \$30.6 million, in particular increased borrowings the Department undertook to [describe key drivers and reasons].

Net cash outflows from investing activities increased by \$2.3 million due to much higher payments of \$23.8 million for non-financial assets, which included the purchase of the new research laboratories in Mildura and Wonthaggi. This was slightly offset by the proceeds from the disposal of discontinued businesses [describe key drivers and reasons] of \$17.8 million.

The net cash inflows from operating activities was \$15.2 million, and 18.4 per cent lower than in 2016-17 due to lower cash funding received from government [describe key drivers and reasons], while slightly offset by reduced payments for grants and payments to suppliers.

Guidance – Departmental five year financial summary and current year financial review

Guidance

Financial information

The financial information in the report of operation should include the following information relating to the current reporting period:

- (a) a summary of the financial results for the year, with comparative information for the preceding four reporting periods;
- (b) a summary of the significant changes in financial position;
- (c) a summary of the operational and budgetary objectives, including performance against the objectives and significant achievements;
- (c) any events occurring after balance date that may significantly affect the entity's operations in subsequent reporting periods;
- (e) expenditure on consultancies; and
- (f) expenditure on government advertising.

The report of operations should complement the information presented in the financial statements by providing a discussion and analysis of the entity's operating results and financial position. This should include details about any significant factors that affect the entity's performance.

Capital projects/asset investment programs

The Department and its related portfolio entities manage a range of capital projects to deliver services for government.

Information on the new and existing capital projects for departments and the broader Victorian public sector is contained in the most recent Budget Paper No. 4 *State Capital Program* (BP4) which is available on the Department of Treasury and Finance's website.

During the year, the Department/agency completed the following capital projects with a total estimated investment [TEI] of \$10 million or greater. The details related to these projects are reported below.

Table 1: Capital projects reaching practical completion during the financial year ended 30 June 2018

| Project Name | Original completion date | Latest approved completion date | Practical completion date | Reason for variance in completion dates | Original approved TEI budget (\$ million) | Latest approved TEI budget (\$ million) | Actual and latest TEI cost (\$ million) | Variation between actual cost and latest approved TEI budget | Reason for variance from latest approved TEI Budget |
|----------------------|--------------------------|---------------------------------|---------------------------|---|---|---|---|--|--|
| Anti-virus IT system | April 2018 | June 2018 | May 2018 | Installation of system completed ahead of schedule. | 9 | 10 | 8 | (2) | The variance relates to suitable hardware being sourced more cheaply than anticipated. |

FRD 22H

Recommendation 45, PAEC Report 109

Recommendation 51, PAEC Report 118

New Recommendation 19, PAEC Report on 2015-16 Financial and Performance Outcome report

Source reference

New
 Recommendation
 19, PAEC Report
 on 2015-16
 Financial and
 Performance
 Outcome report

Table 2: Capital projects reaching financial completion during the financial year ended 30 June 2018

| <i>Project Name</i> | <i>Practical completion date</i> | <i>Financial completion date</i> | <i>Original approved TEI^(a) budget (\$ million)</i> | <i>Latest approved TEI budget (\$ million)</i> | <i>Actual TEI cost (\$ million)</i> | <i>Variation between actual cost and latest approved TEI budget</i> | <i>Reason for variance from latest approved TEI Budget</i> |
|----------------------|----------------------------------|----------------------------------|--|--|-------------------------------------|---|--|
| Anti-virus IT system | May 2017 | July 2017 | 9 | 10 | 8 | (2) | The variance relates to suitable hardware being sourced more cheaply than anticipated. |

The table above is for illustrative purposes only. Departments are required to disclose **all** capital projects funded through the State budget, with a total estimated investment (TEI) of \$10 million or greater (total funding from all sources for the overall project) completed within the reporting period. This includes budget funded capital projects of portfolio agencies.

Please refer to the guidance on page 30 for reporting disclosures for capital projects that have financial completion in the following year following practical completion.

Guidance – Capital projects/asset investment programs

Guidance

The Department of Treasury and Finance, on behalf of all portfolio departments, publishes information on the State's asset investment program in Budget Paper No. 4 *State Capital Program* as part of the annual budget papers. Any subsequent approved revisions to the original budgeted asset investment programs are also reported.

For transparency, departments are required to disclose in their Annual Financial Reports the actual and budgeted cost and the completion dates of all asset investments funded through the State budget with a TEI of \$10 million or greater that reach practical completion by the department or portfolio agencies in the current reporting period. Departments are not required to provide further reporting on a project that reaches financial completion in a subsequent period (unless there is a material variation) if it has been reported as practically complete in an earlier reporting period. Departments are also required to disclose the variance between the actual cost to deliver the project and the latest approved (or budgeted) TEI endorsed by government and an explanation for this variance.

Practical completion occurs when construction is complete and the asset has been handed over to the Department.

Financial completion occurs when the warranty/defects liability period ends, which may occur after the practical completion date.

Where projects are handled across multiple agencies within the same portfolio department, the portfolio department for the agency that owns the asset should report the project in their annual report. Individual portfolio agencies are not required to report on these projects in their annual report.

For example, VicTrack delivers projects on behalf of other agencies and has recently completed a capital project, which was funded through the State Budget. The portfolio department for the agency, the Department of Economic Development, Jobs, Transport and Resources, will report these completed capital projects in its annual report.

Nil reports

An explicit statement of 'nil reports' is required where no completed projects are disclosed. Departments must provide a reason for the nil report, including whether this is because no projects were completed during the financial year, or that none of the TEI of their projects completed during the financial year meet the disclosure threshold of \$10 million.

Departments are required to provide the following information on projects that have reached practical completion: (a) the original estimated completion date (b) the latest approved completion date (c) the practical completion date (d) explanations for changes in completion date, showing root causes for the changes. For projects that have reached financial completion, the following information is to be provided: (a) the original approved total estimated investment (b) the latest approved total estimated investment (c) the actual total investment (d) explanations for changes in total investment, showing root causes for the changes.

Note that variances greater than 5 per cent or greater than \$50 million increase or decrease, for projects that have been reported in a previous reporting period as practically complete, are considered material and will also need to be reported on financial completion date in the following reporting period.

Source reference

Recommendation
15, PAEC Report
87

Disclosure of grants and transfer payments (other than contributions by owners)

The Department has provided assistance to certain companies and organisations. Financial assistance provided in 2017-18 was as follows:

Strategic policy advice [output name]

Program A [insert name]

Grant 1 [insert name]

[Insert description of purpose and nature of grant.]

| Organisation | Payment \$ |
|----------------|------------|
| ABC Ltd | xxxx |
| XYZ Division | xxxx |
| Society of BBY | xxxx |

Grant 2 [insert name]

[Insert description of purpose and nature of grant.]

| Organisation | Payment \$ |
|----------------|------------|
| ABC Ltd | xxxx |
| XYZ Division | xxxx |
| Society of BBY | xxxx |

Program B [insert name]

Grant 1 [insert name]

[Insert description of purpose and nature of grant.]

| Organisation | Payment \$ |
|--------------|------------|
| ATE Ltd | xxxx |

Program C [insert name]

Grant 1 [insert name]

[Insert description of purpose and nature of grant.]

| Organisation | Payment \$ |
|----------------|------------|
| ABC Ltd | xxxx |
| XYZ Division | xxxx |
| Society of BBY | xxxx |
| XYZ Division | xxxx |
| Society of BBY | xxxx |

[Repeat as applicable for each output.]

Guidance – Disclosure of grants and transfer payments

There is little detailed coverage of grant programs in the annual reports of government departments and agencies. Accountable reporting for the expenditure of grant funds and delivery of grant program outcomes needs to be informative and more extensive than in previous years.

For the purposes of annual report disclosure, the following definition can be applied for a grant, developed from that used by the Auditor-General's report *Grants to non-government organisations: Improving accountability*.

Source reference

Guidance – Disclosure of grants and transfer payments (continued)

'A grant pertains to any monies included as a controlled expense within a department's output schedule that is allocated to any government entity (including general government entities and public non-financial corporations), third party or parties outside the public sector and at the discretion of a department or agency, with recipients required to use the monies for the specific purposes outlined in the particular funding agreement.'

Departments and agencies may wish to include some additional information in this section in relation to grants programs.

Disclosure in machinery of government changes

Recommendation 15 of PAEC Report 87 recommended the disclosure of grants and transfer payments by output. This is based on the Department's responsibility of output delivery at the end of the financial year.

In the event of a machinery of government change, the transferor department will no longer be required to disclose grants and transfer payments associated with outputs that have been transferred out to the transferee department. The transferee department will now be required to disclose grants and transfer payments associated with the outputs for the full year because the transferee department is administratively responsible for the outputs at the end of the financial year.

In terms of the relationship between the report of operations and the financial statements, the grants and transfer payments disclosed in the report of operations may not necessarily reconcile with the operating expenses in the financial statements (i.e. Grants and transfer payments actually paid by the department) as a result of machinery of government changes during the financial year. For transparency, it is recommended departments make a footnote to highlight the reporting approach and include a comment to clarify that the disclosed amount will not reconcile to the financial statements.

Subsequent events

Subsequent to the reporting period, the Government announced its intention to privatise the consulting division of the Department. Further details are provided in Note 9.11 of the financial statements.

Guidance – Subsequent events**Guidance**

Where detailed information about subsequent events is contained in the financial statement, the report of operations should include a summary of those events with a cross reference to their disclosure in the financial statement. Refer to Note 9.11 in the Model financial statement.

Machinery of government changes that occurred after the reporting period

If additional disclosures relating to any machinery of government changes occurring after the reporting period are considered useful for readers of the annual report, departments may wish to disclose general facts about the machinery of government changes that would impact on the next annual report. For example, in the case of certain outputs being transferred from one department to another department, if disclosure on the fact that those outputs would be reported under a different department in the next annual report is considered useful to readers, then both transferor and transferee should disclose general facts about the transfer (i.e. department name changes, new minister(s) name(s), output/activity shifts, etc.) in the section under subsequent events in their report of operations and financial statements.

FRD 22H

Source reference

SECTION 2: GOVERNANCE AND ORGANISATIONAL STRUCTURE

Guidance – Governance and organisational structure (overview)

FRD 22H

FRD 22H requires that the report should include an 'organisational chart detailing members of the governing board, Audit Committee, Chief Executive Officer, senior officers and their responsibilities.

Guidance

This section may include a short profile on each of a department's ministers, outlining their portfolio, area of responsibility and other portfolios held by the minister. Profiles of each of a department's senior executives, outlining their role and professional background should also be included.

It may be useful to include stock photos of each minister and relevant secretary/CEO with their profiles for people who use the annual report as a research tool prior to making contact with a department.

The organisational chart should show the names of the senior executives and the areas they are responsible for. Below the level of senior executive, names do not need to be shown, however sufficient detail should be included to show the areas of responsibility or key activities undertaken by a department.

FRD 22H

Organisational structure and corporate governance arrangements

The Department's Ministers

Minister for Technology

The Hon. John Bristol MP was appointed as the Minister for Technology in May 2016. He is also the Minister for Parks and Forests.

The Minister for Technology is responsible for promoting the development of the technology sector in Victoria. The Minister also manages the provision of technology services to the Government.

[\[Insert picture here\]](#)

Minister for Biotechnology

The Hon. Laura Toddingham MP was appointed as the Minister for Biotechnology in May 2016. She is also the Minister for Rural Communities.

The Minister for Biotechnology is responsible for the regulation of Victoria's biotechnology sector and managing research and development activities conducted by the Government.

[\[Insert picture here\]](#)

The Department's senior executives

The Department is led by the Secretary who reports to the Minister for Technology and the Minister for Biotechnology. The Department is managed by a senior executive group comprising the head of each of the Department's four divisions. The role of the senior executive group is to set, monitor and review the strategic direction of the Department.

Jane Smith

Jane Smith was appointed Secretary of the Department in July 2015. She leads the Department in developing and implementing government technology policy. She is responsible for giving policy advice to ministers and providing support to Cabinet on matters within the Department's portfolio.

[\[Optional picture\]](#)

Source reference

John Tails

John heads the Strategic Policy Advice division of the Department and has done so since August 2015. John is responsible for coordinating the Department’s strategic policy advice to Government, including advice on the Department’s involvement in private sector ventures.

Paul Germs

Paul heads the Research and Development Biological Technologies division, which coordinates the activities undertaken by several units of the Department in respect of research and development of new biological technology. Paul has extensive experience in pure and applied research and development programs, having previously held senior positions at various educational and research institutions. Paul was appointed in July 2015.

Gail Mods

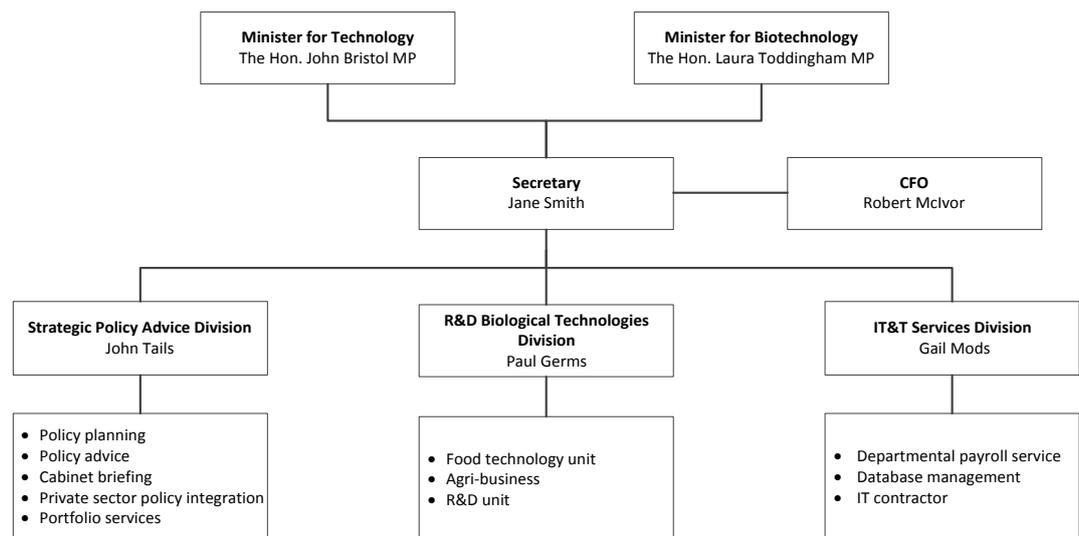
Gail heads the Information Technology and Telecommunication Services division of the Department, which supplies payroll, accounting and database management bureau services to other agencies and governments. Gail was appointed in December 2015.

Robert Mclvor

Robert is the Department’s Chief Finance Officer and was appointed in May 2015. He is responsible for maintaining and developing the Department’s financial management systems, and providing a full range of financial and accounting services.

FRD 22H

Organisation structure



Source reference

Audit Committee membership and roles

SD 3.2.1.3(f)
FRD 22H

The Audit Committee consists of the following members:

- C A Maxwell, Chairman (independent member);
- A L Cunningham (independent member);
- R J Hunter (independent member);
- B A Wilson; and
- J S Curtis.

SD 3.2.1.1

The main responsibilities of the audit committee are to:

- review and report independently to the Secretary and ministers on the annual report and all other financial information published by the Department;
- assist the Secretary and ministers in reviewing the effectiveness of the Department's internal control environment covering:
 - effectiveness and efficiency of operations;
 - reliability of financial reporting; and
 - compliance with applicable laws and regulations;
- determine the scope of the internal audit function and ensure its resources are adequate and used effectively, including coordination with the external auditors;
- maintain effective communication with external auditors;
- consider recommendations made by internal and external auditors and review the implementation of actions to resolve issues raised; and
- oversee the effective operation of the risk management framework.

Revised

Occupational health and safety

FRD 22H
Best practice disclosure based on Recommendation 70, PAEC Report 87

The goal of the Department's occupational health and safety (OH&S) strategy is to ensure all staff remain safe and healthy at work. An OH&S management system has been implemented across the department and the majority of business units within the Department have implemented OH&S local action plans aimed at enhancing safety performance and ensuring safe systems of work. The employee attitude survey results (KPI 15) indicated improved attention to OH&S matters in the Department and a high level of commitment to OH&S management.

During the 2017-18 financial year, the Department implemented a number of initiatives to improve the health and safety of staff including publishing quarterly OH&S bulletins, ergonomic assessments, quarterly workplace inspections to identify and address any workplace risks, the occupational risk reduction program, and the healthy lifestyle training program.

[While the example best practice disclosure has been included in the body of the report, consideration might be given to structuring such disclosures as a short summary supported by a detailed appendix.]

Incident management

Revised

Incidents across the Department increased by 1.9 per cent per 100 FTE in 2017-18. Incidents include injuries, 'near-misses' and detected workplace hazards. In real terms, the increase equates to 74 additional reported incidents compared with the previous year. While reported incidents were up, the number of incidents which resulted in injury [fell/also rose].

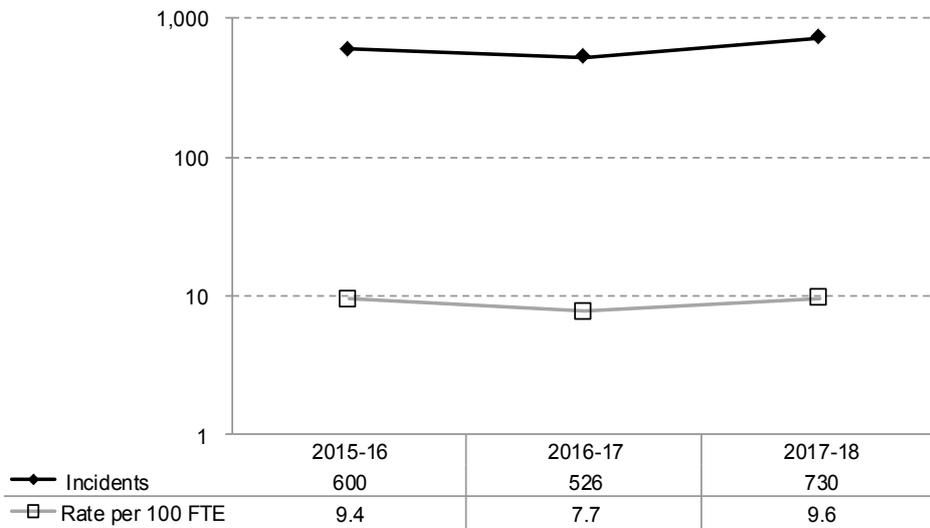
The increase was expected and is driven by the introduction of the Department's online reporting system and an increased awareness of incident reporting among staff, which significantly increased reporting across the Department (refer to Figure 1).

There were 10 notifiable incidents that occurred across the Department. Notifiable incidents are those which require the OHS Regulator to be notified if they occur.

Source reference

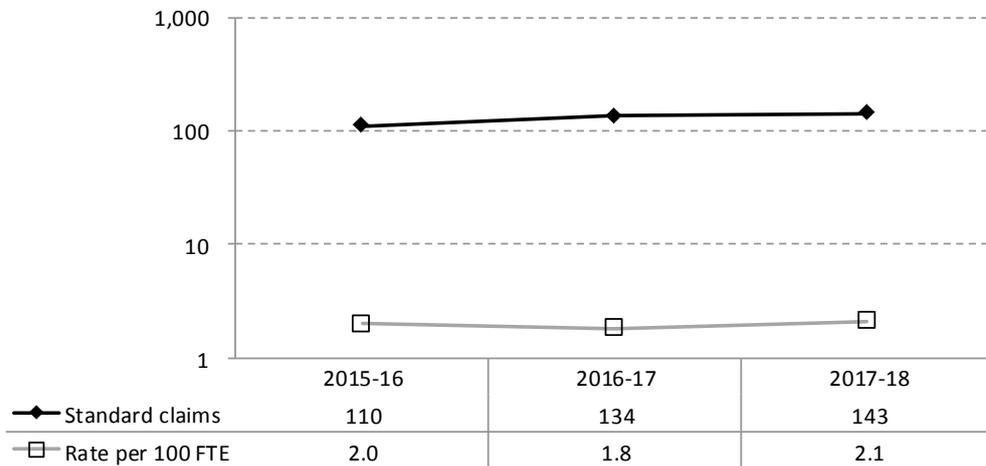
FRD 22H
Best practice disclosure based on Recommendation 70, PAEC Report 87

F Figure 1: Number of incidents and rate per 100 FTE



While the number of standard claims rose marginally in 2017-18, mainly due to predicted increases in muscular skeletal disorder and stress claims, the rate per 100 staff remained steady (Figure 2). To address the increase in the number of standard claims, the Department conducted a review of muscular skeletal disorder activities and introduced a number of proactive programs that focus on reducing sprains and strains, stress reductions, and good claims management practices in high risk areas.

F Figure 2: No. of standard claims and rate per 100 FTE

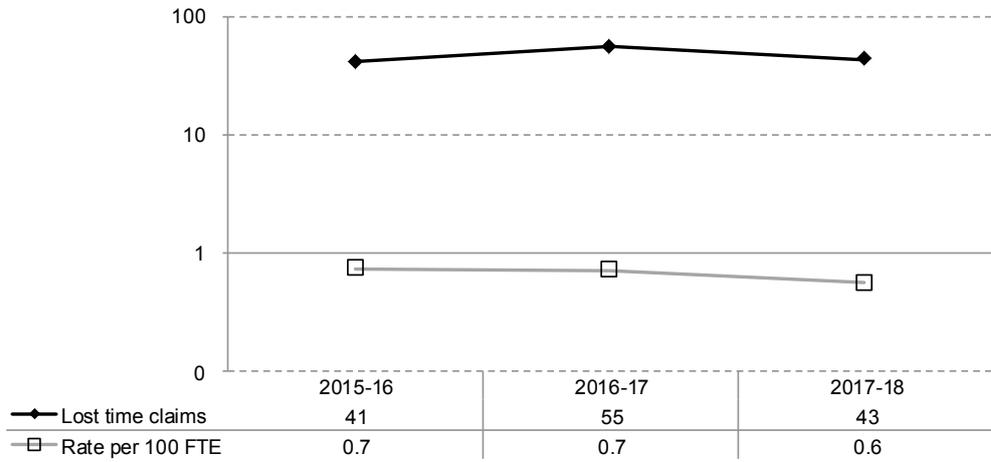


The total number of WorkCover claims lodged decreased in 2017-18 (Figures 3 and 4). In addition, the claims rate continued to decrease due to the growth in staff numbers since 2015-16 (due to the opening of two new research laboratories), effective early intervention strategies and improved claims performance management. The average cost per claim decreased from \$36 070 to \$33 131.

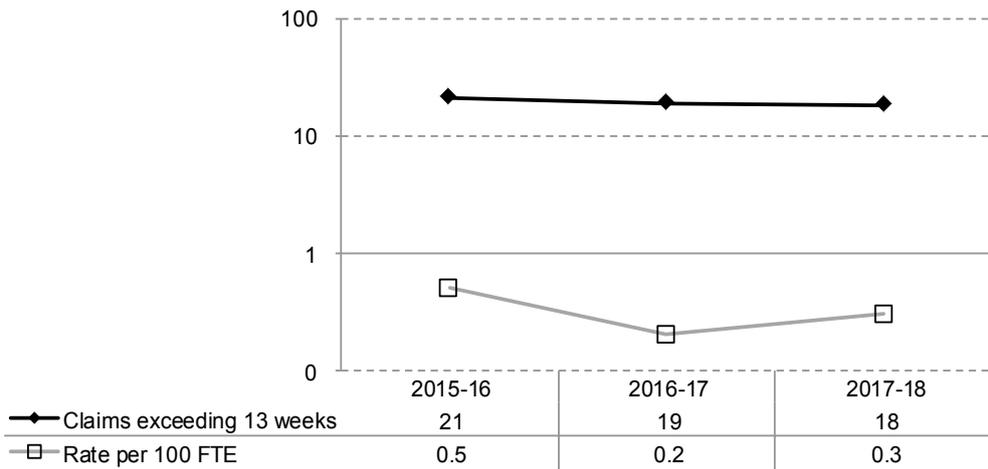
Source reference

FRD 22H
Best practice disclosure based on Recommendation 70, PAEC Report 87

F Figure 3: Lost time claims and rate per 100 FTE



F Figure 4: Claims exceeding 13 weeks and rate per 100 FTE



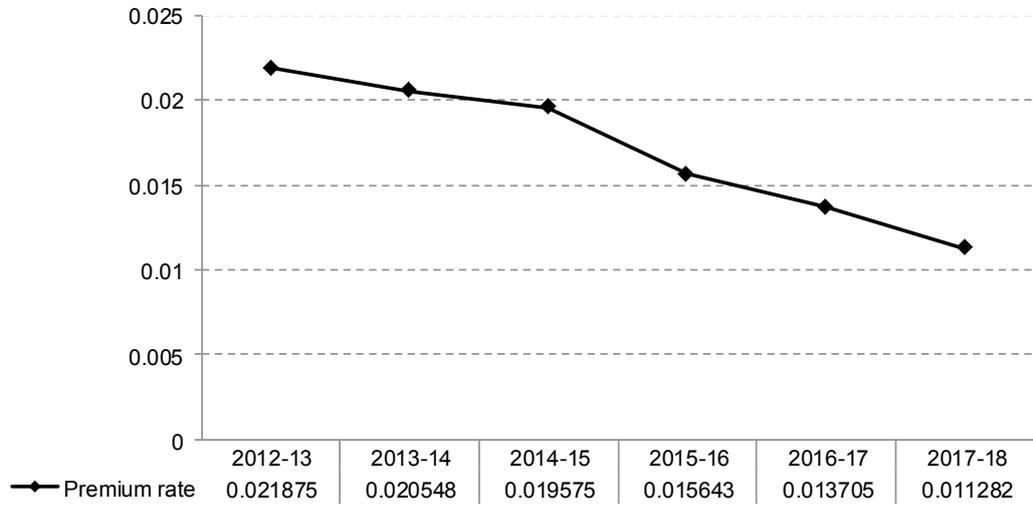
DEPARTMENT OF TECHNOLOGY – MODEL REPORT OF OPERATIONS

Source reference

FRD 22H
Best practice
based on
Recommendatio
70, PAEC Repor
87

The Department’s WorkCover premium rate continued to decrease in 2017-18 (Figure 5). This is due to the continuing consultative approach adopted by the OH&S unit. As a proportion of total staff and of increasing remuneration, the claim ratio is decreasing.

Figure 5: Department of Technology premium rate 2011-2017



Source reference

The Department's performance against OH&S management measures

FRD 22H

Recommendation
10, PAEC Report
107

Revised

| Measure | KPI | 2015-16 | 2016-17 | 2017-18 |
|--------------------------------|---|-----------|-----------|-----------|
| Incidents | No. of incidents | 600 | 526 | 730 |
| | Rate per 100 FTE | 9.4 | 7.7 | 9.6 |
| | No. of incidents requiring first aid and/or further medical treatment | 10 | 9 | 11 |
| Claims | No. of standard claims ^(a) | 110 | 134 | 143 |
| | Rate per 100 FTE | 41 | 1.8 | 2.1 |
| | No. of lost time claims ^(a) | 0.7 | 55 | 43 |
| | Rate per 100 FTE | 21 | 0.7 | 0.6 |
| | No. of claims exceeding 13 weeks ^(a) | 2.0 | 19 | 1.8 |
| | Rate per 100 FTE | 0.5 | 0.2 | 0.3 |
| Fatalities | Fatality claims ^(b) | 1 | .. | .. |
| Claim costs | Average cost per standard claim ^(a) | \$27 944 | \$27 121 | \$29 334 |
| Return to work | Percentage of claims with RTW plan <30 days | 95% | 92% | 95% |
| Management commitment | Evidence of OH&S policy statement, OH&S objectives, regular reporting to senior management of OH&S, and OH&S plans (signed by CEO or equivalent). | completed | completed | completed |
| | Evidence of OH&S criteria(s) in purchasing guidelines (including goods, services and personnel). | completed | completed | completed |
| Consultation and participation | Evidence of agreed structure of designated workgroups (DWGs), health and safety representatives (HSRs), and issue resolution procedures (IRPs). | completed | completed | completed |
| | Compliance with agreed structure on DWGs, HSRs, and IRPs. | completed | completed | completed |
| Risk management | Percentage of internal audits/inspections conducted as planned. | 100% | 100% | 100% |
| | No. of Improvement Notices issued across the Department by WorkSafe Inspector. | 1 | .. | .. |
| | Percentage of issues identified actioned arising from: | | | |
| | <ul style="list-style-type: none"> internal audits; HSR provisional improvement notices; and WorkSafe notices. | 100% | 100% | 100% |
| Training | Percentage of managers and staff that have received OH&S training: | | | |
| | <ul style="list-style-type: none"> induction; management training; and contractors, temps, and visitors. | 100% | 100% | 100% |
| | Percentage of HSRs trained: | | | |
| | <ul style="list-style-type: none"> acceptance of role; re-training (refresher); and reporting of incidents and injuries. | 100% | 100% | 100% |
| | | 100% | 100% | 100% |
| | | 5% | 4% | .. |
| | | | | |

Notes:

(a) Data sourced from Victorian WorkCover Authority (VWA).

(b) The fatality claim received in 2015-16 was due to a vehicle accident. [An explanation of the circumstances contributing to the fatality and the preventive measures taken should also be included. However, in circumstances where the fatality is under investigation or subject to an inquiry, a statement to that effect should be included.]

Recommendation
24,
PAEC Report 107

Source reference

Employment and conduct principles

FRD 22H

The Department is committed to applying merit and equity principles when appointing staff. The selection processes ensure that applicants are assessed and evaluated fairly and equitably on the basis of the key selection criteria and other accountabilities without discrimination. Employees have been correctly classified in workforce data collections.

Guidance – Occupational health and safety

FRD 22H requires an entity to disclose:

- a statement on occupational health and safety matters, including the performance indicators adopted to monitor such matters and the entity’s performance against those indicators; and
- workforce data for the current and previous financial year, including a general statement on the application of employment and conduct principles and that employees have been correctly classified in workforce data collections.

Guidance

General commentary on programs or initiatives that have a significant impact on occupational health and safety incidents between the current and previous reporting period should be explained in the report of operations. Entities are required to explain significant variances between:

- the number of reported hazards/incidents for the year;
- the number of ‘lost time’ standard claims for the year; and
- the average cost per claim for the year, including payments to date plus an estimate of outstanding claim costs as advised by WorkSafe.

Recommendation
10, PAEC Report
107

SECTION 3: WORKFORCE DATA

Public sector values and employment principles

The *Public Administration Act 2004* established the Victorian Public Sector Commission (VPSC). The VPSC's role is to strengthen public sector efficiency, effectiveness and capability, and advocate for public sector professionalism and integrity.

The Department introduced policies and practices that are consistent with the VPSC's employment standards and provide for fair treatment, career opportunities and the early resolution of workplace issues. The Department advised its employees on how to avoid conflicts of interest, how to respond to offers of gifts and how it deals with misconduct.

Guidance – Public sector values and employment principles

Legislative and documented references

The *Public Administration Act 2004* (PAA) enshrines public sector values (s7) and employment principles (s8). This Act establishes the Victorian Public Sector Commission (VPSC).

The VPSC's role is to maintain and advocate for public sector professionalism and integrity.

To do this the VPSC may:

- prepare and issue codes of conduct to promote adherence to public sector values (s61);
- establish and issue standards concerning the application of employment principles (s62);
- monitor and report to public sector body heads on compliance with the public sector values, codes of conduct, and public sector employment principles and standards (s63); and
- review employment related actions and make recommendations following those reviews (ss64&65).

Departments should check for further FRD 22H workforce requirements that may not be illustrated in the Model, and any other information on reporting requirements that may be contained on the VPSC website <http://vpsc.vic.gov.au/>

Source reference

Comparative workforce data

The following table discloses the head count and full-time staff equivalent (FTE) of all active public service employees of the Department, employed in the last full pay period in June of the current reporting period, and in the last full pay period in June (2018) of the previous reporting period (2017).

Revised
FRD 29C**Table 1: Details of employment levels in June 2017 and 2018**

| | June 2018 | | | | | | | | June 2017 | | | | | | | |
|----------------------------|--------------------|------------|-----------------------|-----------------------|------------|--------------------|-----------------------|--------------------|---------------|-----------------------|-----------------------|------------|--------------------|-----------|-----------------------|--|
| | All employees | | | Ongoing | | | Fixed term and casual | | All employees | | | Ongoing | | | Fixed term and casual | |
| | Number (headcount) | FTE | Full-time (headcount) | Part-time (headcount) | FTE | Number (headcount) | FTE | Number (headcount) | FTE | Full-time (headcount) | Part-time (headcount) | FTE | Number (headcount) | FTE | | |
| Demographic data | | | | | | | | | | | | | | | | |
| Gender | | | | | | | | | | | | | | | | |
| Women | 243 | 201 | 134 | 76 | 183 | 33 | 18 | 192 | 157 | 108 | 63 | 145 | 21 | 12 | | |
| Men | 321 | 277 | 212 | 93 | 267 | 16 | 10 | 240 | 197 | 133 | 89 | 186 | 18 | 11 | | |
| Self-described | n | n | n | n | n | n | n | n | n | n | n | n | n | n | | |
| Age | | | | | | | | | | | | | | | | |
| 15-24 | 33 | 26 | 21 | 1 | 20 | 11 | 6 | 6 | 6 | 6 | 0 | 6 | 0 | 0 | | |
| 25-34 | 123 | 95 | 52 | 53 | 84 | 18 | 10 | 77 | 66 | 50 | 24 | 64 | 3 | 2 | | |
| 35-44 | 135 | 117 | 90 | 30 | 108 | 15 | 9 | 113 | 97 | 73 | 13 | 81 | 27 | 16 | | |
| 45-54 | 176 | 158 | 125 | 46 | 156 | 5 | 3 | 167 | 143 | 110 | 50 | 139 | 7 | 4 | | |
| 55-64 | 89 | 77 | 58 | 31 | 77 | 0 | 0 | 63 | 38 | 0 | 63 | 38 | 0 | 0 | | |
| 65+ | 8 | 5 | 0 | 8 | 5 | 0 | 0 | 6 | 4 | 2 | 2 | 3 | 2 | 1 | | |
| Classification data | | | | | | | | | | | | | | | | |
| VPS 1-6 grades | 482 | 396 | 266 | 167 | 368 | 49 | 28 | 354 | 278 | 168 | 147 | 255 | 39 | 23 | | |
| VPS 1 | 24 | 20 | 16 | 5 | 19 | 3 | 1 | 18 | 14 | 9 | 5 | 12 | 4 | 2 | | |
| VPS 2 | 102 | 93 | 79 | 21 | 92 | 2 | 1 | 89 | 67 | 36 | 34 | 56 | 19 | 11 | | |
| VPS 3 | 138 | 112 | 73 | 50 | 103 | 15 | 9 | 97 | 78 | 50 | 39 | 74 | 8 | 4 | | |
| VPS 4 | 91 | 79 | 60 | 22 | 74 | 9 | 5 | 82 | 66 | 42 | 34 | 62 | 6 | 4 | | |
| VPS 5 | 90 | 66 | 29 | 52 | 61 | 9 | 5 | 54 | 43 | 26 | 26 | 41 | 2 | 2 | | |
| VPS 6 | 37 ^(a) | 26 | 9 | 17 | 19 | 11 | 7 | 14 | 10 | 5 | 9 | 10 | 0 | 0 | | |
| Senior employees | 82 | 82 | 80 | 2 | 82 | 0 | 0 | 78 | 76 | 73 | 5 | 76 | 0 | 0 | | |
| STS | 2 | 2 | 2 | 0 | 2 | 0 | 0 | 2 | 2 | 2 | 0 | 2 | 0 | 0 | | |
| PS | 1 | 1 | 1 | 0 | 1 | 0 | 0 | 1 | 1 | 1 | 0 | 1 | 0 | 0 | | |
| SMA | 1 | 1 | 1 | 0 | 1 | 0 | 0 | 1 | 1 | 1 | 0 | 1 | 0 | 0 | | |
| SRA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Executives | 78 | 78 | 76 | 2 | 78 | 0 | 0 | 74 | 72 | 69 | 5 | 72 | 0 | 0 | | |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Total employees | 564 | 478 | 346 | 169 | 450 | 49 | 28 | 432 | 354 | 241 | 152 | 331 | 39 | 23 | | |

Note:

(a) There are 2 VPS-6 employees acting as executives under long-term acting arrangements.

Source reference

The following table discloses the annualised total salary for senior employees of the Department, categorised by classification. The salary amount is reported as the full-time annualised salary.

FRD 29C

Table 2: Annualised total salary, by \$20 000 bands, for executives and other senior non-executive staff

| Income band (salary) | Executives | STS | PS | SMA | SRA | Other |
|-----------------------|-------------------|----------|----------|----------|----------|----------|
| < \$160 000 | 16 | | | 1 | | |
| \$160 000 – \$179 999 | 25 ^(a) | | | | | |
| \$180 000 – \$199 999 | 17 | | | | | |
| \$200 000 – \$219 999 | 9 | 1 | | | | |
| \$220 000 – \$239 999 | 4 | | | | | |
| \$240 000 – \$259 999 | | | | | | |
| \$260 000 – \$279 999 | | | | | | |
| \$280 000 – \$299 999 | | | 1 | | | |
| \$300 000 – \$319 999 | | | | | | |
| \$320 000 – \$339 999 | 3 | | | | | |
| \$340 000 – \$359 999 | | | | | | |
| \$360 000 – \$379 999 | | 1 | | | | |
| \$380 000 – \$399 999 | | | | | | |
| \$400 000 – \$419 999 | 3 | | | | | |
| \$420 000 – \$439 999 | | | | | | |
| \$440 000 – \$459 999 | | | | | | |
| \$460 000 – \$479 999 | 1 | | | | | |
| \$480 000 – \$499 999 | | | | | | |
| Total | 78 | 2 | 1 | 1 | 0 | 0 |

Notes:

The salaries reported above is for the full financial year, at a 1-FTE rate, and excludes superannuation.

(a) There are two employees employed on a part-time basis at a 0.6 FTE rate and a 0.8 FTE rate respectively.

Guidance – Workforce data staffing trends

FRD 22H

FRD 22H requires the disclosure of workforce data as per the last payroll period for both the current and previous financial years.

FRD 29C

FRD 29C and its guidance note prescribe the minimum disclosure requirements on the public service employee workforce, including information concerning workforce demographics, classification groups and types of employment for all employees who are employed under Part 3 of the *Public Administration Act 2004* (PAA). This FRD provides comprehensive definitions of 'active' employee, full-time equivalent, senior employees and other terms related to workforce data reporting.

Guidance

Information on workforce data is to be presented by headcount and the number of full-time equivalents, separated by gender, age, VPS classification levels and senior employee categories. The Model provides a suggested table format, but entities have the discretion over how to present the minimum required information and whether to include any additional information. General commentary on programs or initiatives that have a significant impact on employment levels between the current and previous reporting period should be included in the report. Notes are required to explain:

- inclusions and exclusions in the employee figures;
- significant rise and fall in the employment numbers during the reporting period due to seasonal factors or machinery of government changes; and
- any classification categories that are rolled into an 'other' category.

Revised

The full-time annualised salary of senior employees should also be disclosed in a separate table, by classification in \$20 000 bands.

The disclosure of gender may include three categories: women, men and self-described. The privacy and confidentiality of all employees must be strictly protected at all times.

Source reference

Guidance – Workforce data staffing trends (continued)

In line with the *Policy and Standard Model for Collecting Staff Gender Information in the Victorian Public Sector* (the Policy and Standard Model) the self-described option should include a free text space for employees to specify their gender in their own terms. When reporting on gender information collected through this mode, all free text responses should be reported under the 'self-described' category.

It is proposed that the disclosure of workforce data separated in the three gender categories, in line with the Policy and Standard Model, will be mandatory for all VPS entities from the 2019-20 reporting period onwards.

The Policy and Standard Model is available on the DTF website to provide further assistance with gender reporting. Further enquiries can be directed to the Equality Branch in the Department of Premier and Cabinet (DPC) by emailing equality@dpc.vic.gov.au.

Workforce data disclosure of Authority/Office in a Department’s portfolio

In a Department’s portfolio there may be authorities and offices who employ public service employees independently of a Department Secretary. A Department’s annual report must list entities in this category that fall within its portfolio.

In addition, for these entities that do not produce their own annual reports, their employee numbers must be included in the Department’s annual report in a separate table. Where they produce their own annual reports, employee numbers must be included in those annual reports and the Department is required to disclose this fact.

Recommendation 20, PAEC Report 107

FRD 29C Revised

Workforce inclusion policy

The Department is working towards creating a balanced working environment where equal opportunity and diversity are valued. As part of the workforce inclusion policy, the Department has a target of 50 per cent women and 50 per cent men on the executives’ gender profile by 2019.

The Department values staff with non-binary gender identities at all levels from VPS officers through the executives. The Department acknowledges that due to historic and current barriers to disclosure of non-binary gender identities, staff may not choose to disclose this information. As a result, targets or quotas are not currently a useful way to promote opportunities for gender diverse staff at all levels.

The following table outlines the Department’s actual progress against this target in 2017-18.

| <i>Workforce inclusion policy initiative</i> | <i>Target</i> | <i>Actual progress in 2017-18</i> | <i>Actual progress in 2016-17</i> |
|---|--|--|---|
| Gender profile at executive levels ¹ | Executive Officers: 50 per cent women; 50 per cent men by 2019 | Executive Officers: 40 per cent women; 60 per cent men | Executive Officers: 35 per cent women; 65 percent men |

Note:
[The above workforce inclusion policy initiative is for illustration purpose only.]

1. Note that the self-described category is nil in for this entity.

Guidance – Workforce inclusion policy

If an entity is working towards a workforce inclusion initiative as part of its workforce inclusion policy, the entity should report on progress towards the targets, and/or provide reasons why the initiative has not been implemented. This is to enable the evaluation of progress of the workforce inclusion policy. The comparative data are also presented to demonstrate the cumulative benefits of the initiative. Entities are encouraged to make comments about longer term progress and illustrate the trend over time.

Source reference

FRD 15E

Executive officer data

For a Department, an executive officer (EO) is defined as a person employed as an executive under Part 3 of the *Public Administration Act 2004* (PAA). For a public body, an EO is defined as an executive under Part 3 of the PAA or a person to whom the Victorian Government's Policy on Executive Remuneration in Public entities applies. All figures reflect employment levels at the last full pay period in June of the current and corresponding previous reporting year.

The definition of an EO does not include a statutory office holder or an Accountable Officer.

The following tables disclose the EOs of the Department and its portfolio agencies for 30 June 2018:

- Table 1 discloses the total numbers of EOs for the Department, broken down by gender;
- Table 2 provides a reconciliation of executive numbers presented between the report of operations and Note 9.8 'Remuneration of executives' in the financial statements;
- Table 3 provides the total executive numbers for all of the Department's portfolio agencies; and
- Tables 1 to 3 also disclose the variations, denoted by 'var', between the current and previous reporting periods.

Revised

FRD15E

Table 1: Total number of EOs for the Department, broken down into gender

| Class | All | | Women | | Men | | Self-described | |
|--------------|-----------|------------|-----------|------------|-----------|------------|----------------|----------|
| | No. | Var. | No. | Var. | No. | Var. | No. | Var. |
| EO-1 | 2 | 0 | 1 | 0 | 1 | 0 | n | n |
| EO-2 | 22 | (1) | 8 | 0 | 14 | (1) | n | n |
| EO-3 | 54 | (3) | 25 | (2) | 29 | (1) | n | n |
| Total | 78 | (4) | 34 | (2) | 44 | (2) | n | n |

The number of executives in the report of operations is based on the number of executive positions that are occupied at the end of the financial year. Note 9.8 in the financial statements lists the actual number of EOs and the total remuneration paid to EOs over the course of the reporting period. The financial statements note does not include the Accountable Officer, nor does it distinguish between executive levels or disclose separations. Separations are executives who have left the Department during the relevant reporting period. To assist readers, these two disclosures are reconciled below.

Table 2: Reconciliation of executive numbers

| | 2018 | 2017 |
|---|-----------|-----------|
| Executives (financial statement Note 9.8) | 79 | 77 |
| Accountable Officer (Secretary) | 1 | 1 |
| Less Separations | (2) | (4) |
| Total executive numbers at 30 June | 78 | 74 |

Revised

Table 3: Number of EOs for the Department's portfolio agencies

| Portfolio agencies | Total | | Women | | Men | | Self-described | |
|---------------------------------|------------|-------------|------------|-------------|-----------|------------|----------------|----------|
| | No. | Var. | No. | Var. | No. | Var. | No. | No. |
| Commissioner of New Technology | 9 | (4) | 0 | (3) | 9 | (1) | n | n |
| Innovation Victoria | 2 | 2 | 2 | 2 | 0 | 0 | n | n |
| Regional Computer Teaching | 49 | 1 | 13 | 1 | 36 | 0 | n | n |
| Victorian Technology Commission | 129 | (19) | 41 | (9) | 88 | (10) | n | n |
| Total | 189 | (20) | 133 | (11) | 56 | (9) | n | n |

Source reference

FRD 15E

Guidance – EO data

FRD 15E explains the requirements for disclosing Executive Officer (EO) numbers in annual reports. It states that a Department's report of operations must disclose the following disaggregated information on EO numbers as per the last pay period for the financial year:

- disaggregated information on EO numbers including:
 - executive classification;
 - gender split across classifications; and
 - comparison to the previous reporting period.
- a reconciliation of the EO numbers that appear in the report of operations to those disclosed in the notes in the financial statements for the current and previous reporting periods; and
- EO numbers for all its portfolio entities.

This FRD provides definitions for Accountable Officers, EO, and portfolio entities.

Revised

The disclosure of gender may include three categories: women, men and self-described. The privacy and confidentiality of all employees must be strictly protected at all times.

In line with the *Policy and Standard Model for Collecting Staff Gender Information in the Victorian Public Sector* (the Policy and Standard Model), the self-described option should include a free text space for employees to specify their gender in their own terms. When reporting on gender information collected through this mode, all free text responses should be reported under the 'self-described' category.

It is proposed that the disclosure of executive officer data separated into the three gender categories, in line with the Policy and Standard Model, will be mandatory for all VPS entities from the 2019-20 reporting period onwards.

The Policy and Standard Model is available on the DTF website to provide further assistance with gender reporting. Further enquiries can be directed to the Equality Branch in the Department of Premier and Cabinet (DPC) by emailing equality@dpc.vic.gov.au.

Guidance

Departments should follow the table format provided in the Model to show their executive numbers. EO numbers should be based on the annualised employee equivalent (AEE). Refer to the definition and calculation of AEE illustrated in the guidance of Note 9.8 of the Model financial statements.

Departments are also required to provide a table reconciling EO numbers disclosed in the financial statements with those in the report of operations, showing Accountable Officers and separations.

The information required in the table showing executive numbers in portfolio agencies of the Department can be sourced from the Government Sector Executive Remuneration Database, maintained by the Victorian Public Sector Commission. The database lists all public authorities and provides relevant information required for the disclosure.

Source reference

SECTION 4: OTHER DISCLOSURES

FRD 25C

Local Jobs First – Victorian Industry Participation Policy

The *Victorian Industry Participation Policy Act 2003* requires Departments and public sector bodies to report on the implementation of the Local Jobs First – Victorian Industry Participation Policy (Local Jobs First – VIPP). Departments and public sector bodies are required to apply the Local Jobs First – VIPP in all procurement activities valued at \$3 million or more in metropolitan Melbourne and for statewide projects, or \$1 million or more for procurement activities in regional Victoria.

Revised

During 2017-18, the Department commenced three Local Jobs First – VIPP applicable procurements totalling \$44.16 million. Of those projects, one was located in regional Victoria, with a commitment of 42 per cent of local content, and two in metropolitan Melbourne, with an average commitment of 51 per cent local content. No projects were commenced that occurred statewide.

The outcomes expected from the implementation of the Local Jobs First – VIPP to these projects where information was provided are as follows:

- an average of 93 per cent of local content commitment was made;
- a total of 349 jobs (annualised employee equivalent (AEE)) were committed, including the creation of nine new jobs and the retention of 340 existing jobs (AEE); and
- a total of six positions for apprentices/trainees were committed, including the creation of three new apprenticeships/traineeships, and the retention of the remaining three existing apprenticeships/traineeships.

Revised

During 2017-18, the Department completed five Local Jobs First – VIPP applicable projects, collectively valued at about \$200 million. Of these projects, two were located in regional Victoria, with an average commitment of 25.3 per cent local content, and one in metropolitan Melbourne representing 63 per cent of estimated local content. Two projects occurred statewide with an average commitment of 89 per cent local content.

The outcomes reported from the implementation of the policy where information was provided, were as follows:

- an average of 88.3 per cent of local content outcome was recorded;
- a total of 77 (AEE) positions were created; and
- 27 new apprenticeships/traineeships were created and 54 existing apprenticeships/traineeships retained.

During 2017-18, there were five small to medium sized businesses that prepared a VIPP Plan or Local Industry Development Plan (LIDP) for contracts, successfully appointed as Principal Contractor.

During 2017-18. There were 105 small to medium sized businesses engaged by Principal Contractors on projects.

Revised

During 2017-18, one project, had the minimum formal weighting of 10 per cent applied for local content in the tender evaluation of the VIPP Plan or LIDP.

The Department commenced two contracts with a total of 96 per cent estimated to be of local content to which a VIPP Plan or LIDP was not required, as the procurement activity was local by nature.

For design contracts or grants provided during 2017-18, a total of three interaction reference numbers were required, which entailed a conversation with the Industry Capability Network (Victoria) Ltd.

Source reference

FRD 25C

Guidance – Implementation of the Local Jobs First – Victorian Industry Participation Policy

Reporting on all contracts except those related to grants provided

The report of operations should contain the following information if applicable for contracts **commenced and/or completed** to which the Local Jobs First – VIPP applied in the reporting period:

- During [insert current financial year], this Department commenced and/or completed [insert figure] contracts totalling \$[insert figure] to which a VIPP Plan or Local Industry Development Plan (LIDP) was required.
- During [insert current financial year], this Department commenced [insert figure] contracts with a total of [insert figure] per cent estimated to be of local content to which a VIPP Plan or LIDP was not required as the procurement activity was local by nature.
- During [insert current financial year], this Department commenced [insert figure] contracts with a total of [insert figure] per cent estimated to be of local content to which a VIPP Plan was not required as the procurement activity was international by nature.
- During [insert current financial year], [insert figure] small to medium sized businesses that prepared a VIPP Plan, or LIDP were engaged as Principal Contractor
- During [insert current financial year], [insert figure] small to medium sized businesses were engaged by Principal Contractors on projects.
- During [insert current financial year], [insert figure] contracts commenced and/or completed, to which a VIPP Plan was required, occurred in metropolitan Melbourne, with an average commitment of [insert figure] per cent local content.
- During [insert current financial year], [insert figure] contracts commenced and/or completed, to which a VIPP Plan was required, occurred in regional Victoria, with an average commitment of [insert figure] per cent local content.
- During [insert current financial year], [insert figure] contracts commenced and/or completed, to which a VIPP Plan was required, occurred statewide, with an average commitment of [insert figure] per cent local content.
- The total VIPP Plan or LIDP commitments achieved as a result of contracts commenced include:
 - local content of [insert figure] per cent of the total value of the contracts;
 - [insert figure] new jobs and [insert figure] retained jobs (AEE). (Refer to the definition and calculation of AEE illustrated in the guidance of Note 9.1.1 of this Model);
 - [insert figure] new apprenticeships/traineeships and [insert figure] retained apprenticeships/traineeships; and
- The total VIPP Plan or LIDP commitments achieved as a result of contracts completed include:
 - local content of [insert figure] percentage of the total value of the contracts;
 - [insert figure] new jobs and [insert figure] retained jobs (AEE). (Refer to the definition and calculation of AEE illustrated in the guidance of Note 9.1.1 of this Model); and
 - [insert figure] new apprenticeships/traineeships and [insert figure] retained apprenticeships/traineeships.
- During [insert current financial year], [insert figure] contracts had the minimum formal weighting of 10 per cent applied for local content in the tender evaluation of the VIPP Plan or LIDP.

Revised

Revised

Revised

Reporting on grants provided or design contracts

The report of operations should contain the following information related to grants provided or design contracts to which an Interaction Reference Number was required:

- For design contracts or grants provided in the reporting period, a total of [insert figure] Interaction Reference Numbers were required, which entailed a conversation with the Industry Capability Network (Victoria) Ltd.

Source reference

FRD 22H
Recommendation 50,
PAEC Report 118

Government advertising expenditure

In 2017-18, there were three government advertising campaigns with total media spend of \$100 000 or greater (exclusive of GST). The details of each campaign are outlined below.

Details of government advertising expenditure

(campaigns with a media spend of \$100 000 or greater)

(\$ thousand)

| Name of campaign | Campaign summary | Start/ end date | 2017-18 | | | | | Total |
|--|---|---------------------|---|---|---|--|--|-------|
| | | | Advertising (media) expenditure (excl. GST) | Creative and campaign development expenditure (excl. GST) | Research and evaluation expenditure (excl. GST) | Print and collateral expenditure (excl. GST) | Other campaign expenditure (excl. GST) | |
| Online Safety | To ensure Victorian users remain safe online, the Department launched a six-month campaign aimed at informing and educating Victorians about how to stay safe online. | Aug 2017 – Jan 2018 | 1 250 | 40 | 15 | 65 | 0 | 1 370 |
| E-recycling | The Department is committed to setting the standard for responsible recycling of electronic equipment. A six-month campaign has been initiated to educate companies about how to responsibly dispose of electronic waste. | Oct 2017 – Mar 2018 | 620 | 15 | 32 | 12 | 8 | 687 |
| Senior Citizens Computer Literacy Campaign | The Department launched a three month campaign promoting short courses for senior citizens to assist in developing basic IT skills. | Jan 2018 – Mar 2018 | 500 | 10 | 40 | 50 | 10 | 610 |

Guidance – Government advertising expenditure

In accordance with paragraph 6.16 of FRD 22H, for each government advertising campaign with **total** media buy of \$100 000 or greater (exclusive of GST), an entity should include a schedule listing the following:

- (a) name of advertising campaign;
- (b) start and end date of campaign;
- (c) campaign summary; and
- (d) details of campaign expenditure for the reporting period (exclusive of GST) including:
 - advertising (media);
 - creative and campaign development;
 - research and evaluation;
 - print and collateral; and
 - other campaign costs.

Nil report statement

An explicit statement of 'nil reports' is required where the relevant activities or circumstances do not trigger the disclosure threshold of \$100 000 on government advertising expenditure.

FRD 22H

Recommendation
49, PAEC Report
118

Source reference

FRD 22H
Recommendation 71,
PAEC Report 87

Consultancy expenditure

Details of consultancies (valued at \$10 000 or greater)

In 2017-18, there were three consultancies where the total fees payable to the consultants were \$10 000 or greater. The total expenditure incurred during 2017-18 in relation to these consultancies is \$1.65 million (excluding GST). Details of individual consultancies are outlined below [[insert website address if the entity chooses to report detailed disclosure online](#)].

(\$ thousand)

| Consultant | Purpose of consultancy | Start date | End date | Total approved project fee (excl. GST) | Expenditure 2017-18 (excl. GST) | Future expenditure (excl. GST) |
|------------------------|--|------------|-------------|--|---------------------------------|--------------------------------|
| Reedy Consultants | Undertake community satisfaction measurement surveys | 1 Feb 2018 | 1 Apr 2019 | \$1 200 | \$500 | \$700 |
| GMPK | Advice on internal control functions | 6 Nov 2017 | 21 Jan 2018 | \$650 | \$650 | nil |
| Morecroft and Crawford | Legal advisory services | 5 May 2017 | 30 Sep 2017 | \$500 | \$500 | nil |

Note: [The disclosure on 'start date' and 'end date' of a consultancy is not a mandatory requirement of FRD 22H.]

Details of consultancies under \$10 000

In 2017-18, there were 147 consultancies engaged during the year, where the total fees payable to the individual consultancies was less than \$10 000. The total expenditure incurred during 2017-18 in relation to these consultancies was \$1.3 million (excl. GST).

FRD 22H

Guidance – Consultancy expenditure disclosure

Guidance

For the purposes of the requirements of FRD 22H:

- (a) A consultant is a particular type of contractor that is engaged primarily to perform a discrete task for an entity that facilitates decision making through:
 - (i) provision of expert analysis and advice; and/or
 - (ii) development of a written report or other intellectual output.
- (b) A contractor is an individual or organisation that is formally engaged to provide works or services for or on behalf of an entity. This definition does not apply to casual, fixed term or temporary employees directly employed by the entity.

Refer to FRD 22H for the detailed disclosure requirements on consultancy expenditure. Examples of 'consultants' and 'contractors' are also available on the Guidance Note to FRD 22H accessible at: www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Financial-reporting-directions-and-guidance

Disclosure in machinery of government changes

The objective of the disclosure is to provide additional transparency over the actual spending and engagements of contractors and consultants by the Department, which may not specifically tie to the individual outputs of the Department. As a result, the reporting of consultants expenditure in the event of machinery of government change should be made over the same period as the financial statements.

Source reference

FRD 22H

Information and communication technology expenditure

Details of information and communication technology (ICT) expenditure

For the 2017-18 reporting period, the Department had a total ICT expenditure of \$100 000, with the details shown below.

(\$ thousand)

| <i>All operational ICT expenditure</i> | <i>ICT expenditure related to projects to create or enhance ICT capabilities</i> | | |
|--|--|--------------------------------|----------------------------|
| <i>Business As Usual (BAU) ICT expenditure</i> | <i>Non-Business As Usual (non-BAU) ICT expenditure</i> | <i>Operational expenditure</i> | <i>Capital expenditure</i> |
| (Total) | (Total = Operational expenditure and capital expenditure) | | |
| 60 | 40 | 30 | 10 |

ICT expenditure refers to the Department's costs in providing business enabling ICT services within the current reporting period. It comprises Business As Usual (BAU) ICT expenditure and Non-Business As Usual (Non-BAU) ICT expenditure. Non-BAU ICT expenditure relates to extending or enhancing the Department's current ICT capabilities. BAU ICT expenditure is all remaining ICT expenditure which primarily relates to ongoing activities to operate and maintain the current ICT capability.

Guidance – ICT expenditure

Guidance

In accordance with paragraph 6.17 of FRD 22H, an entity should disclose the following:

- (a) total entity ICT Business As Usual (BAU) expenditure for the full 12 month reporting period; and
- (b) total entity ICT Non BAU expenditure for the full 12 month reporting period; and provide a breakdown for:
 - (i) Operational expenditure (OPEX); i.e. the expenditure is charged against operational funding; and
 - (ii) Capital Expenditure (CAPEX), i.e. the expenditure is charged against capital funding.

ICT expenditure: an agency's costs in providing business enabling ICT services and consists of the following cost elements:

- operating (including depreciation and impairment) and capital expenditure;
- ICT services – internally and externally sourced;
- cost in providing ICT services (including personnel and facilities) across the agency, whether funded through a central ICT budget or through other budgets; and
- cost in providing ICT services to other organisations.

Total ICT expenditure = ICT BAU expenditure + ICT Non-BAU expenditure.

Non-Business As Usual (Non BAU): non-BAU ICT expenditure is a subset of ICT expenditure that relates to extending or enhancing current ICT capabilities and are usually run as projects.

This includes expenditure incurred for a project to build enhancements to an existing ICT system or to implement a new ICT system or solution.

Business As Usual (BAU): all remaining ICT expenditure is considered BAU ICT expenditure and typically relates to ongoing activities to operate and maintain the current ICT capability.

This includes ongoing operational expenditure incurred for any ICT services or systems, such as depreciation expenses, repairs and maintenance costs.

Further detail is available from the ICT Reporting Standard and ICT Expenditure Reporting Guideline, found at www.enterprisesolutions.vic.gov.au by searching for ICT expenditure.

Nil report statement

An explicit statement of 'nil reports' is required where the relevant activities or circumstances do not result in any spending.

FRD 22H

Source reference

FRD 12B

Disclosure of major contracts

With the exception of the contract referred to below, the Department has disclosed, in accordance with the requirements of government policy and accompanying guidelines, all contracts greater than \$10 million in value entered into during the year ended 30 June 2018. Details of contracts that have been disclosed in the Victorian Government contracts publishing system can be viewed at: www.procurement.vic.gov.au.

Contractual details have not been disclosed for contracts where disclosure is exempted under the *Freedom of Information Act 1982* and/or government guidelines.

The contractual details with MNO People Solutions for staff recruitment and training has not been disclosed as at 30 June 2018 but will be posted on the department's website on 1 October 2018.

Guidance – Disclosure of major contracts

Legislative and documented references

FRD 12B requires that for contracts greater than \$10 million, a Department's annual report must include a statement by the Accountable Officer advising that:

- contracts entered into during the reporting period have been disclosed in part or in full, except for certain material that falls within one or more of the criteria contained in Part IV of the *Freedom of Information Act 1982*;
- brief details of the contractors and the purpose of contracts that have not been disclosed, and the date when it will be disclosed; and
- where the details of contracts that have been disclosed are publicly available.

Guidance

In complying with these requirements, the Accountable Officer should have regard to the following documents and other relevant material:

- Ensuring openness and probity in Victorian Government contracts: A policy statement (11 October 2000);
- Ensuring openness and probity in Victorian Government contracts: Implementation guidelines; and
- guidelines issued by the Victorian Government Purchasing Board.

The mandated disclosure above is a minimum requirement. The policy requires that all other public sector entities document their policies on disclosure, having regard to the Government's policy on openness and probity.

FRD 12B

FRD 22H

Revised

Freedom of information

The Act allows the public a right of access to documents held by the Department. The purpose of the Act is to extend as far as possible the right of the community to access information held by government departments, local councils, Ministers and other bodies subject to the Act.

An applicant has a right to apply for access to documents held by a Department. This comprises documents both created by the Department or supplied to the Department by an external organisation or individual, and may also include maps, films, microfiche, photographs, computer printouts, computer discs, tape recordings and videotapes. Information about the type of material produced by the Department is available on the Department's website under its Part II Information Statement.

The Act allows a Department to refuse access, either fully or partially, to certain documents or information. Examples of documents that may not be accessed include: cabinet documents; some internal working documents; law enforcement documents; documents covered by legal professional privilege, such as legal advice; personal information about other people; and information provided to a Department in-confidence.

From 1 September 2017, the Act has been amended to reduce the Freedom of Information (Fol) processing time for requests received from 45 to 30 days. In some cases, this time may be extended.

If an applicant is not satisfied by a decision made by the Department, under section 49A of the Act, they have the right to seek a review by the Office of the Victorian Information Commissioner (OVIC) within 28 days of receiving a decision letter.

Source reference

FRD 22H
Revised**Making a request**

FoI requests can be lodged online at www.foi.vic.gov.au. An application fee of \$28.40 applies. Access charges may also be payable if the document pool is large, and the search for material, time consuming.

Access to documents can also be obtained through a written request to the Department's Freedom of Information team, as detailed in s17 of the *Freedom of Information Act 1982*.

When making an FoI request, applicants should ensure requests are in writing, and clearly identify what types of material/documents are being sought.

Requests for documents in the possession of the Department of Technology should be addressed to:

Freedom of Information Team
Department of Technology
1 Victoria Place
Melbourne VIC 3000

FoI statistics/timeliness

During 2017-18, the Department received 100 applications. Of these requests, 20 were from Members of Parliament, 10 from the media, and the remainder from the general public.

The Department made 95 FoI decisions during the 12 months ended 30 June 2018.

Sixty decisions were made within the statutory 30-day time period; 20 decisions within an extended statutory 30-45 day time period; 10 decisions within 46 to 90 days; and five decisions in greater than 90 days.

The average time taken to finalise requests in 2017-18 was 25 days.

During 2017-18, 5 requests were subject to a complaint/internal review by OVIC with two progressing to VCAT.

Further information

Further information regarding the operation and scope of FoI can be obtained from the Act; regulations made under the Act; and foi.vic.gov.au.

Guidance – Freedom of Information**Legislative and documented references**

FRD 22H states that a Department's annual report should include a 'summary of the application and operation of the *Freedom of Information Act 1982* (the Act)'.

Guidance

This section should provide the reader with context of how the Act operates and the Department's application of the requirements under the Act, including:

- a description of what types of requests are handled by the Department and what are outside its scope (e.g. requests for information belonging to a portfolio agency);
- guidance on how a member of the public can make an FoI request, what format it should be in and any costs associated with making the request;
- contact details for the Department's FoI officer(s);
- details of how the Act has been applied for the reporting period, including the entity's application of the publication requirements prescribed in s7(4) of the Act.
- a summary of the types of requesters (e.g. 'six were from Members of Parliament and the remainder were from the general public') and the outcome of the requests, in brief detail (e.g. 'the majority were acceded to'); and
- further information on where readers may find out more information about FoI may also be included (FoI website, FoI Act etc.).

Please note that entities should refer to the FOI Act for the detailed requirements. The Model **should not be used as a substitute for the actual legislation or specific requirements.**

FRD 22H

Source reference

FRD 22H

Compliance with the *Building Act 1993*

The Department does not own or control any government buildings and consequently is exempt from notifying its compliance with the building and maintenance provisions of the *Building Act 1993* [for publicly owned buildings controlled by the Department].

Guidance – Compliance with the *Building Act 1993*

Revised

Legislative and documented references

FRD 22H states that a Department's annual report must include a 'statement on compliance with the building and maintenance provisions' of the *Building Act 1993*. This reference to the Building Act should also be taken to refer to the regulations made under the *Building Act 1993* as well as the relevant provisions of the National Construction Code.

Audit of Government-owned and leased buildings for the presence of combustible cladding

Departments should be aware that an audit of Government-owned and leased building is underway. The outcomes of this audit may be relevant in preparing a statement of compliance with the building and maintenance provisions of the *Building Act 1993*.

Guidance

If your Department or entity does not own or control any government buildings, you still need to include a statement to that effect, identifying that it is exempt from notifying its compliance with the building and maintenance provisions of the Act.

Where a Department does own or control buildings, it should disclose the following:

- mechanisms to ensure that buildings conform with the building standards;
- major works projects (greater than \$50 000);
- number of building permits, occupancy permits or certificate of final inspection issued in relation to buildings owned by the department or entity;
- mechanisms for inspection, reporting, scheduling and carrying out of maintenance works on existing buildings;
- number of emergency orders and building orders issued in relation to buildings; and
- number of buildings that have been brought into conformity with building standards during the reporting period.

Revised

Competitive Neutrality Policy

Competitive neutrality requires government businesses to ensure where services compete, or potentially compete with the private sector, any advantage arising solely from their government ownership be removed if it is not in the public interest. Government businesses are required to cost and price these services as if they were privately owned. Competitive neutrality policy supports fair competition between public and private businesses and provides government businesses with a tool to enhance decisions on resource allocation. This policy does not override other policy objectives of government and focuses on efficiency in the provision of service.

The Department is working to ensure Victoria fulfils its requirements on competitive neutrality reporting for technological based businesses against the enhanced principles as required under the **Competition Principles Agreement**.

Source reference

Guidance – National Competition Policy**Legislative and documented references**

FRD 22H

FRD 22H states that a Department's annual report must include a 'statement to the extent applicable, on the implementation and compliance with National Competition Policy (NCP), including compliance with the requirements of the policy statement, *Competitive Neutrality Policy Victoria* and any subsequent reforms'.

Guidance

The Victorian Government requires that an assessment of proposed or legislation or regulation against the NCP requirements to be included in Legislative Impact Assessments (LIA), which are prepared for primary legislation, and Regulatory Impact Statements (RIS), which are prepared for regulations and other instruments.

Departments may wish to include some background information in this section, outlining the basis upon which NCP was implemented and where relevant, subsequent reviews as part of the National Reform Agenda, most notably the preparation of LIA and RIS.

This section should also include details of compliance with competitive neutrality policy and background information on the application of competitive neutrality to the extent that this has altered since the previous year. Where a CNP complaint has been made against a department, this section should also include a brief description of the complaint, the results of any investigation and steps taken to comply with the CNP.

Further information on CNP is available from the Office of the Commissioner for Better Regulation: www.betterregulation.vic.gov.au.

Compliance with the *Protected Disclosure Act 2012*

FRD 22H

The *Protected Disclosure Act 2012* encourages and assists people in making disclosures of improper conduct by public officers and public bodies. The Act provides protection to people who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

The Department does not tolerate improper conduct by employees, nor the taking of reprisals against those who come forward to disclose such conduct. It is committed to ensuring transparency and accountability in its administrative and management practices and supports the making of disclosures that reveal corrupt conduct, conduct involving a substantial mismanagement of public resources, or conduct involving a substantial risk to public health and safety or the environment.

The Department will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosure to the extent it is legally possible.

Reporting procedures

Disclosures of improper conduct or detrimental action by the Department or any of its employees may be made to any of the following Department personnel:

- Secretary of the Department;
- Protected Disclosure Coordinator or Protected Disclosure Officer;
- manager or supervisor of the disclosure; or
- manager or supervisor of the person who is the subject of the disclosure.

FRD 22H

Alternatively, disclosures may also be made directly to the Independent Broad based Anti-corruption Commission:

Level 1, North Tower, 459 Collins Street
Melbourne, VIC 3000
Phone: 1300 735 135

Internet: www.ibac.vic.gov.au

Email: [see the website above for the secure email disclosure process, which also provides for anonymous disclosures.]

Source reference

Further information

The Protected Disclosure Policy and Procedures, which outline the system for reporting disclosures of improper conduct or detrimental action by the Department or any of its employees and/or officers, are available on the Department's website.

Disclosures under the *Protected Disclosure Act 2012*

| | 2017-18 number | 2016-17 number |
|--|-------------------|-------------------|
| The number of disclosures made by an individual to the Department and notified to the Independent Broad-based Anti-corruption Commission | | |
| Assessable disclosures | 0 | n.a. |

**Guidance – Compliance with *Protected Disclosure Act 2012*
(formerly the *Whistleblowers Protection Act 2001*)**
Legislative and documented references

FRD 22H (to be issued in June 2018) states that a Department's annual report should include a 'summary of the application and operation of the *Protected Disclosure Act 2012* (the Act), including disclosures required by the Act'.

The Act commenced operation on 10 February 2013 and replaced the former *Whistleblowers Protection Act 2001*.

Guidance

Similar to the former legislation, the applicable of the current Act may be presented in a table format.

Illustration under the Act has been prepared for Departments only, **and agencies should seek their own advice regarding reporting requirements that may apply to them.**

The application could be supported by a short message from a Department's Secretary outlining the Department's commitment to the aims and objectives of both Acts and its own process for applying the Acts.

Compliance with the *Carers Recognition Act 2012*

The Department has taken all practical measures to comply with its obligations under the Act. These include [\[insert or remove whatever is applicable\]](#):

- promoting the principles of the Act to people in care relationships who receive our services and to the wider community [e.g. distributing printed material about the Act at community events or service points; providing links to state government resource materials on our website; providing digital and/or printed information about the Act to our partner organisations]; and/or
- ensuring our staff have an awareness and understanding of the care relationship principles set out in the Act [e.g. developing and implementing a staff awareness strategy about the principles in the Act and what they mean for staff; induction and training programs offered by the organisation include discussion of the Act and the statement of principles therein]; and/or
- considering the care relationships principles set out in the Act when setting policies and providing services [e.g. reviewing our employment policies such as flexible working arrangements and leave provisions to ensure that these comply with the statement of principles in the Act; developing a satisfaction survey for distribution at assessment and review meetings between workers, carers and those receiving care].

Source reference

FRD 22H

Revised

Compliance with the *Disability Act 2006*

The *Disability Act 2006* reaffirms and strengthens the rights of people with a disability and recognises that this requires support across the government sector and within the community.

The Disability Act requires that public sector bodies (including all government departments) prepare a disability action plan and report on its implementation in their annual report.

A disability action plan is a strategic plan which helps an organisation to remove barriers that prevent people with a disability from using the organisation's goods, services and facilities, and from gaining and keeping employment. Disability action planning also strives to promote inclusion and participation in the community, and achieve changes in attitudes and practices that may result in discrimination.

Absolutely everyone: state disability plan for 2017-2020 is the Victorian Government's framework for enabling people with a disability to participate and contribute to the social, economic and civic life of their community. Over time the government will consider ways to align disability action plans to the state plan.

Guidance – Additional departmental information available on request

Legislative and documented references

Section 38 of the Disability Act requires that public sector bodies (including all government departments) prepare a disability action plan and report on its implementation in their annual report. A public sector body must ensure that a disability action plan is prepared for the purpose of the following four areas:

- reducing barriers to people with a disability accessing goods, services and facilities;
- reducing barriers to persons with a disability obtaining and maintaining employment;
- promoting inclusion and participation in the community of people with a disability; and
- achieving tangible changes in attitudes and practices which discriminate against people with a disability.

Guidance

Compliance with this legislation could take the format of a summary of achievements for the financial year in relation to the four areas of disability action planning under this Act.

Source reference

FRD 22H

Compliance with *Technology Act 1991*

Under section 4(a) of the *Technology Act 1991* [fictitious act], the Minister of Technology is required to ensure a continuous assessment of technology research programs in relation to the use of animal tissues. As per section 16(c) of the Act, the following disclosures were made in respect of research activities undertaken in 2017-18:

- the technology research register indicates that 42 research programs during the financial year involve the use of animal tissues;
- three out of the 42 research programs were completed during the year; and
- no new research programs involving the use of animal tissues commenced.

Guidance – Compliance with other legislation

Legislative and documented references

There may be other legislative disclosures that entities are required to disclose that are not covered by the Model.

Guidance

You may wish to include some background information in this section, outlining the basis upon which the legislation was implemented.

This section should include details of compliance with the relevant Act and any reporting required as outlined in the Act.

Revised

Source reference

Office based environmental impacts

FRD 24D

[It is important that you read the commentary for this section (on page 68) before making the disclosure below.]

Revised

The Department of Technology's Environment Management System (EMS) was set up to meet government requirements and to reduce the Department's impact on the environment. The department reports against a range of indicators for energy and water consumption, transportation, waste generation, paper purchasing, green procurement and greenhouse gas emissions. Consumption and usage is captured through reports and surveys conducted at both office and non-office sites. The program is independently audited biennially by an environmental auditor appointed under the *Environment Protection Act 1970*.

The EMS objectives include:

Revised

- reducing greenhouse gas emissions;
- reducing the amount of waste and maximising the amount of reused and recycled resources;
- ensuring new capital works incorporate environmentally sustainable principles;
- making environmentally sound purchasing decisions for capital items and consumables;
- encouraging staff to reduce environmental impacts through behaviour change;
- communicating environmental performance through regular reporting; and
- adopting an environmental management system based on ISO14001 to drive continual environment improvement across the department.

Following machinery of government changes, the *Research and Development of Biological Technology* output was transferred to Department of Natural Resources and the New Technology Administration output was received from the Department of Cabinet Administration. Environmental data relevant to the transferred and received outputs will be reported by the respective transferee.

Voluntary/ Optional Disclosure

Revised

The reportable site list excludes residences and sites where staff are located within another department's facility (e.g. Attwood and Horsham). Non-Departmental staff accommodated within another departmental managed facility are counted towards that departments reported consumption figures (but not FTE figures). Staff numbers and office tenancy net lettable area (NLA) details used for reporting calculations are shown below.

| Indicator | 2017-18 | 2016-17 | 2015-16 |
|-------------------|---------|---------|---------|
| FTE's | 478 | 354 | 340 |
| Office FTE's | 401 | 308 | 306 |
| Office NLA | 3 920 | 3 010 | 2 870 |
| Number of offices | 12 | 10 | 9 |

The department reports from April 1 – March 31 to allow for a full reporting year and provide greater accuracy for the annual report.

Eco Office Challenge

The Department uses the Eco Office Challenge to inspire departmental staff to continually improve performance in cutting energy, water and paper use, and reducing waste to landfill. A group of about 100 staff, called 'eco office champions', help develop, implement and refine a range of initiatives aimed at changing staff behaviour. Each month, the champions focus on a new topic to promote to staff, encouraging changes in behaviour to limit environmental impacts.

Source reference

FRD 24D

Energy use

The Department consumes energy for a number of different uses including: office facilities (50 per cent); research and development facilities (20 per cent) and other uses such as [\[describe\]](#).

Revised

The data represented below was collected through energy retailer billing information and represents 80 per cent of sites and 95 per cent of full-time equivalent (FTE) staff. The Department is continuing to develop systems to more comprehensively collect data, particularly for non-office facilities. The table below, however, only includes office based data and accounts for 80% of the Department's sites and 84% of the Department's FTEs.

Revised

| <i>Indicator</i> | <i>2017-18</i> | <i>2016-17</i> | <i>2015-2016</i> |
|--|------------------------|-----------------------|------------------------|
| E1. Total energy usage segmented by primary source (MJ) | 20 326 ⁽ⁱ⁾ | 19 116 | 18 912 |
| Electricity (MJ) – excluding Green Power | 10 032 | 10 532 | 10 500 |
| Natural gas (MJ) | 5 034 | 5 334 | 5 332 |
| Green power (MJ) | 5 160 | 3 160 | 3 000 |
| LPG (MJ) ⁽ⁱⁱ⁾ | 100 | 90 | 80 |
| E2. Total greenhouse gas emissions from energy consumption (tonnes CO2-e) | 9 251 ⁽ⁱⁱⁱ⁾ | 13 381 ^(v) | 12 836 ^(iv) |
| Electricity (tonnes CO2-e) – excluding Green Power | 8 725 | 12 813 | 12 303 |
| Natural gas (tonnes CO2-e) | 475 | 523 | 479 |
| LPG (tonnes CO2-e) ⁽ⁱⁱ⁾ | 51 | 45 | 54 |
| E3. Percentage of electricity purchased as Green Power | 20% ⁽ⁱⁱⁱ⁾ | 15% | 13% |
| E4. Units of office energy used per FTE (MJ/FTE) | 51 | 62 ^(iv) | 62 ^(iv) |
| E5. Units of office energy used per office area (MJ/m2) | 5 | 6 ^(iv) | 0 ^(iv) |
| Voluntary/ Optional Indicators | | | |
| Total renewable energy generation installed (kW) | 1 200 | 0 | 0 |
| Total renewable energy generated (MJ) | 0 ^(v) | 0 | 0 |
| Details of NABERS energy rating/s achieved (star rating): | | | |
| • 570 Bourke Street, Melbourne (tenancy rating) | 5.0 stars | Not rated | Not rated |

Revised

Revised

Actions undertaken

- DOT have committed to the Victorian Government TAKE2 climate change pledge to reduce emissions by 30 per cent over the next 3 years and to be carbon neutral by 2050;
 - In the last 12 months DOT has been tracking daily electricity consumption across 30 sites. This has enabled faults to be identified in advance of billing data;
 - LED lighting has now been installed at 43 DOT sites;
 - Photo Voltaic (PV) Solar panels are installed at 6 DOT sites. In addition, solar panels for hot water have been installed at many sites;
 - DOT have started purchasing Green Power; and
- Participation in the global 'Earth Hour' event to promote and improve office energy efficiency.

Source reference

FRD 24D

Targets

The following targets have been set for 2017-18:

- 5 per cent energy intensity reduction, measured as MJ/m², from 2016-17 values by 30 June 2018; and
- purchase 25 per cent Green Power, as percentage of total electricity consumption, by 30 June 2018.

Revised

Explanatory notes

- i. Energy data is sourced directly from the government energy suppliers;
- ii. This figure is based on LPG canisters purchased. Canisters can remain unused for long periods of time;
- iii. Without the purchase of Green Power, the total energy emissions would have been 12,256 (tonnes CO₂-e). DOT has committed to purchasing 25 per cent Green Power. As this decision was made part way through the year, the commitment was achieved by the purchase of 100 per cent Green Power at 6 sites;
- iv. These figures have been revised to include previously unavailable utility accounts at 570 Bourke Street (Melbourne) and 57 Cherry Lane (Laverton) for comparative purposes; and
- v. Photo Voltaic (PV) solar panels were installed at 6 DOT sites at the end of the reporting period.

Source reference

FRD 24D]

Waste and recycling

The *aWay With Waste* system was made available to a slightly greater proportion of departmental staff in 2017-18, with most regional sites now covered. This program facilitates the easy segregation of waste materials for recycling, composting or landfill in the Department's offices.

Revised

The data presented below is derived from four waste audits that were each over five days and conducted at two sites accommodating over 30 per cent of employees. The Department is continuing to develop systems to more comprehensively collect data, particularly for non-office facilities. The table below, however, only includes office based data and accounts for 80% of the Department's sites and 84% of the Department's FTEs.

Revised

| <i>Indicator</i> | <i>2017-18</i> | <i>2016-17</i> | <i>2015-16</i> |
|--|----------------------|---------------------|---------------------|
| Ws1. Total units of waste disposed of by destination (kg/yr) | 2 703 520 | 5 426 235 | 3 045 235 |
| Landfill (kg) | 2 558 567 | 5 255 603 | 2 855 258 |
| Comingled recycling (kg) | 29 142 | 35 031 | 58 132 |
| Paper and card (kg) | 56 238 | 61 882 | 65 911 |
| Secure documents (kg) | 31 908 | 43 197 | 40 621 |
| Organics (kg) | 27 665 | 30 522 | 25 313 |
| Ws2. Total units of waste disposed of per FTE by destination (kg/FTE) | 61 | 73 ⁽ⁱⁱ⁾ | 83 ⁽ⁱⁱ⁾ |
| Landfill (kg/FTE) | 18 | 18 | 19 |
| Comingled recycling (kg/FTE) | 9 | 11 | 20 |
| Paper and card (kg/FTE) | 17 | 20 | 22 |
| Secure documents (kg/FTE) | 10 | 14 | 14 |
| Organics (kg/FTE) | 8 | 10 | 9 |
| Ws3. Recycling rate (%) | 71% ⁽ⁱⁱⁱ⁾ | 75% ⁽ⁱⁱ⁾ | 77% ⁽ⁱⁱ⁾ |
| Ws4. Greenhouse gas emissions associated with waste (tonnes CO₂-e) | 93 | 82 ⁽ⁱⁱ⁾ | 72 ⁽ⁱⁱ⁾ |
| Voluntary/ Optional Indicators | | | |
| Coffee cups recycled (number of cups) | 10 000 | 0 | 0 |
| Soft plastics recycled (kg) | 10.8 | 8.4 | 6.3 |
| Paper towel recycled (kg) | 5.1 | 4.9 | 3.2 |

Revised

Revised

Revised

Actions undertaken

- DOT diverted 5,435 kilograms of metal, plastics, batteries, mobile phones, and stationery through the Green Collect recycling scheme.
- DOT is one of the first two government departments in Australia to participate in the Closed Loop coffee cup trial recycling scheme at 8 Nicholson Street.
- The Red Cycle soft plastics recycling scheme is also being trialled at DOT sites through the Green Team.

Targets

The following targets have been set for 2017-18:

- *aWay With Waste* to be available to 95 per cent of Departmental staff by 30 June 2018; and
- all Department sites with greater than 100 FTEs to have Green Collect service available by 30 June 2018.

Explanatory notes

[Insert as appropriate]

Source reference

FRD 24D

Revised

Paper use

The Department is becoming more efficient in relation to paper use. Programs commenced during the reporting period which provided additional reductions in consumption. The table below, however, only includes office based data and accounts for 80% of the Department's sites and 84% of the Department's FTEs.

| <i>Indicator</i> | <i>2017-18</i> | <i>2016-17</i> | <i>2015-16</i> |
|---|----------------|----------------|----------------|
| P1. Total units of A4 equivalent copy paper used (reams) | 40 094 | 35 332600 | 30 280 |
| P2. Units of A4 equivalent copy paper used per FTE (reams/FTE) | 13.7 | 11.0 | 10.0 |
| P3. 75-100% recycled content | 96.4% | 84.0% | 78.0% |
| P3. 50-74% recycled content | 0.2% | 4.0% | 4.0% |
| P3: Percentage of 0-49% recycled content | 3.4% | 12.0% | 18.0% |
| Voluntary/ Optional Indicators | | | |
| Percentage of certified paper used (%) | 80.2% | 64.9% | 50.1% |
| Percentage of publications available electronically (%) | 90% | 85% | 80% |

Revised

Actions undertaken

- The DOT default white A4 paper now is now 100 per cent recycled. Previously the default was 80 per cent recycled.

Targets

The following targets have been set for 2017-18:

- reduce total units of A4 equivalent copy paper used (reams) by 5 per cent based on 2010-11 baselines by 30 June 2018;
- reduce units of A4 equivalent copy paper used per FTE (reams per FTE) by 5 per cent based on 2010-11 baselines by 30 June 2018;
- all the Department's white A4 and A3 paper stock to have at least 70 per cent recycled content by 30 June 2018; and
- all the Department's white A4 and A3 paper stock to have at least 80 per cent recycled content by 30 June 2018.

Explanatory notes

[Insert as appropriate.]

Revised

Source reference

FRD 24D

Revised

Water consumption

The data in the table below is based on water meter readings at five major departmental sites covering 70 per cent of staff. The reduction in water use has easily surpassed the earlier target of achieving a 10 per cent reduction in office based water consumption by 30 June 2018. The table below, however, only includes office based data and accounts for 80% of the Department's sites and 84% of the Department's FTEs.

| <i>Indicator</i> | <i>2017-18</i> | <i>2016-17</i> | <i>2015-16</i> |
|---|----------------|----------------|----------------|
| W1. Total water consumption (kilolitres) | 45 110 | 48 723 | 49 906 |
| W2. Units of office water used per FTE (kilolitres/FTE) | 63.8 | 78.4 | 59.3 |
| W3. Units of office water used per office area (kilolitres/m2) | 6.5 | 8.0 | 6.3 |
| Voluntary/ Optional Indicators | | | |
| Details of NABERS water rating/s achieved (star rating): | | | |
| <ul style="list-style-type: none"> 570 Bourke Street, Melbourne (tenancy rating) | 4.5 stars | Not rated | Not rated |

Revised

Actions undertaken

- In the last 12 months DOT has been tracking daily water consumption across 30 sites. This has enabled faults to be identified in advance of billing data.
- Water storage tanks have been installed at 46 DOT sites to help reduce the demand for mains water.

Targets

The following targets have been set for 2017-18:

- 10 per cent reduction in water consumption (litres per FTE) by 30 June 2018.

Explanatory notes

[Insert as appropriate.]

Revised

Source reference

FRD 24D

Travel and transport

The Department's fleet comprises 800 vehicles, 60 per cent of which are operational vehicles, and the remainder executive fleet. Of the operational fleet, 50 per cent are LPG, 25 per cent are four cylinder petrol fuelled, 10 per cent are six cylinder petrol fuelled and 15 per cent are hybrid. The executive fleet comprised 80 per cent six cylinder petrol fuelled and 20 per cent hybrid vehicles.

| | Indicator | 2017-18 | 2016-17 | 2015-16 |
|----------------|--|----------------|----------------|----------------|
| Revised | T1. Total energy consumption by fleet vehicles (MJ) | 76 294 160 | 90 970 327 | 81 528 287 |
| | Diesel | 68 623 776 | 80 103 558 | 70 805 395 |
| | LPG | 547 429 | 707 646 | 945 636 |
| | Unleaded | 7 122 955 | 9 950 809 | 9 575 800 |
| | Hybrid | 251 892 | 208 314 | 201 456 |
| Revised | T2. Total distance travelled by fleet vehicles (km) | 17 388 509 | 18 627 345 | 17 801 319 |
| | Diesel | 14 016 242 | 14 191 626 | 13 058 929 |
| | LPG | 177 763 | 223 232 | 429 138 |
| | Unleaded | 3 005 173 | 4 061 952 | 4 198 336 |
| | Hybrid | 189 331 | 150 535 | 114 916 |
| Revised | T3. Total greenhouse gas emissions from fleet vehicles (tonnes CO₂-e) | 5 350 | 6 346 | 5 652 |
| | Diesel | 4 817 | 5 634 | 4 943 |
| | LPG | 33 | 27 | 57 |
| | Unleaded | 482 | 671 | 641 |
| | Hybrid | 18 | 14 | 11 |
| Revised | T3. Greenhouse gas emissions from fleet vehicles per 1000km (tonnes CO₂-e) | 0.31 | 0.34 | 0.32 |
| | Diesel | 0.34 | 0.40 | 0.38 |
| | LPG | 0.19 | 0.12 | 0.13 |
| | Unleaded | 0.16 | 0.17 | 0.15 |
| | Hybrid | 0.10 | 0.09 | 0.10 |

DEPARTMENT OF TECHNOLOGY – MODEL REPORT OF OPERATIONS

Source reference
RD 24D

| Indicator | 2017-18 | 2016-17 | 2015-16 |
|--|---------|---------|---------|
| T4. Total distance travelled by air (km) | 13 500 | 15 000 | 16 000 |

Revised

| T5. Percentage using sustainable transport to get to and from work by locality | | | |
|--|-----|-----|-----|
| CBD | 95% | 89% | 89% |
| Metro | 21% | 28% | 30% |
| Regional | 20% | 22% | 22% |

Revised

| Voluntary/ Optional Indicators | | | |
|--|---|---|---|
| Number of petrol hybrid, electric and plug-in hybrid electric vehicles | 7 | 3 | 3 |

Revised

Actions undertaken:

- DOT minimises travel by using telephone and video conferencing facilities whenever possible. Staff are also encouraged to utilise public transport options.
- The Bicycle User Group continues to be widely promoted to help increase the profile of cycling across the department.
- From July 2016 DOT were the first Victorian Government department to start offsetting all air travel emissions as part of the TAKE2 climate change strategy.

Targets

The following targets have been set for 2017-18:

- reduce consumption of unleaded petrol used by the Department’s passenger vehicle fleet compared to 2015-16 by 10 per cent by 30 June 2018; and
- reduce the distance travelled annually in passenger vehicles by the Department’s employees by 10 per cent by 30 June 2018.

Explanatory notes

[Insert as appropriate.]

Greenhouse gas emissions

The emissions disclosed in the section below are taken from the previous sections and brought together here to show the Department’s greenhouse footprint.

| Indicator | 2017-18 | 2016-17 | 2015-16 |
|--|---------|---------|---------|
| G1 Total greenhouse gas emissions associated with energy use (tonnes CO ₂ -e) Note: This includes office-based data only | 9 251 | 13 381 | 12 836 |
| G2 Total greenhouse gas emissions associated with vehicle fleet (tonnes CO ₂ -e) | 5 350 | 6 346 | 5 652 |
| G3 Total greenhouse gas emissions associated with air travel (tonnes CO ₂ -e) | 176 | 1 134 | 814 |
| G4 Total greenhouse gas emissions associated with waste disposal (tonnes CO ₂ -e) Note: This includes office-based data only | 93 | 82 | 72 |
| G5 Greenhouse gas emissions offsets purchased (tonnes CO ₂ -e) | 50 | 30 | 0 |
| Voluntary/ Optional Indicators | | | |
| Any other known greenhouse gas emissions associated with other activities | 18 | 23 | 26 |

Revised

Revised

Revised

Source reference

FRD 24D

Revised

Actions undertaken

- DOT have committed to the Victorian Government TAKE2 climate change pledge to reduce emissions by 30 per cent over the next 3 years and to be carbon neutral by 2050;
- DOT have started purchasing Green Power;
- LED lighting has now been installed at 43 DOT sites;
- Solar panels are currently installed at 6 DOT sites; and
- From July 2016 DOT were the first Victorian Government department to start offsetting all air travel emissions.

Targets

The following targets have been set for 2017-18:

- to increase the number of greenhouse sources accounted in the greenhouse inventory by 2 per year until 2018; and
- to reduce the Department's carbon footprint by 50 per cent by 2036.

Explanatory notes

[Insert as appropriate.]

Other information

Actions taken during the year to reduce energy use in buildings include:

- replacement of older, inefficient boilers with higher efficiency boilers including a new control strategy and pump system;
- a staff awareness program to encourage staff to turn off equipment and lights after use;

Actions taken during the year to reduce energy use in the Department's vehicle fleet;

- converted dedicated departmental vehicles from petrol to LPG; and
- purchase of a number of hybrid vehicles to reduce fuel usage and greenhouse gas emissions.

The Department has developed a green purchasing policy that complies with the Government's Environmental Purchasing Policy. While value for money is the core principle governing the Department's procurement activities, the Department's green purchasing policy also requires environmental considerations to be included in the procurement planning stage, tender specifications and tender evaluation criteria, where applicable.

Greener procurement

The Department's main areas of procurement are contractors (40 per cent), and goods and services (60 per cent).

Examples of how the Department has incorporated environmental considerations into procurement decision making include:

- clauses in quotes and tender documents requiring tenderers to disclose environmental breaches;
- clauses in quotes and tender documents requiring tenderers to disclose environmental practices; and
- weighting of environmental considerations in quotes and tenders.

Tenders, contracts, or products for which the Department has developed or is using sustainability clauses or specifications include:

- stationery contract; and
- uniforms contract.

Targets

The following targets have been set for 2017-18:

- to always purchase printing paper containing at least 50 per cent recycled properties.

Explanatory notes

[Insert as appropriate.]

Source reference
FRD 24D

Revised

Guidance – Environmental reporting

Legislative and documented references

FRD 24D states the department's annual report of operations must disclose information on the aspects of energy use, waste production, paper use, water consumption, transportation fuel consumption, greenhouse gas emissions and sustainable procurement, and other information relevant to understanding and reducing its office based environmental impacts.

In addition, for water consumption purposes, Departments must now report on water sources, the purposes for which water is consumed (office/non-office and government-owned/leased properties), and information about the source and coverage of the water consumption data. Guidance on the reporting format for environmental data and a new definition of 'water use' is available in the guidance note to the FRD.

The FRD also outlines suggestions of what information departments may wish to disclose voluntarily including intentions and principles in relation to environmental performance, environmental awareness raising techniques and environmental management system objectives, targets and other relevant indicators.

A detailed list of the mandatory disclosure requirements is outlined in the FRD.

Guidance

Departments are required to include environmental reporting in their annual report, in order to reflect the Government's objective to improve environmental management through Departments managing and reducing the environmental impacts of their office-based activities.

This section should be a mix of narrative, illustrating the Department's environmental performance achievements and tables or charts showing actual performance against targets.

Many of the achievements in this section will have been due to staff changing work behaviours and being more aware of reducing consumption of elements such as paper, water and energy.

A list of useful definitions relating to environmental reporting and websites that may assist in developing suitable environmental measures and reports, including the Government's Environmental Purchasing Policy and Our environment our future – Sustainability action statement 2006, is also included in FRD 24C.

Please note that non office based disclosure, while encouraged, is not currently a requirement of FRD 24C.

Source reference

FRD 22H

Additional departmental information available on request

In compliance with the requirements of the Standing Directions of the Minister for Finance, details in respect of the items listed below have been retained by the Department and are available on request, subject to the provisions of the *Freedom of Information Act 1982*.

- (a) a statement that declarations of pecuniary interests have been duly completed by all relevant officers of the Department;
- (b) ...
- (c) ...

The information is available on request from:

Director of Portfolio Services
Strategic Policy Advice Division
Phone: (03) 9xxx xxxx
Email: information@dot.vic.gov.au

[Refer to FRD 22H (to be issued in June 2017) 'Standard disclosures in report of operations' for the latest detailed list of information required to be retained and made available on request to complete the list in the table above.]

Guidance – Additional departmental information available on request**Legislative and documented references**

FRD 22H lists the relevant information, in relation to the financial year, that is to be retained by the Accountable Officer and made available to the relevant minister, Members of Parliament and the public on request, subject to the provisions of the *Freedom of Information Act 1982*. Refer to FRD 22H for the latest detailed list of information required to be retained and made available on request.

Entities can refer to the Guidance note for FRD 22H for further guidance to assist entities to comply with any request for this information. This guidance is available from: www.dtf.vic.gov.au/financial-reporting-policy/financial-reporting-directions-and-guidance.

Attestation for financial management compliance with Ministerial Standing Direction 5.1.4

The Responsible Body's compliance attestation under Direction 5.1.4 must appear in the annual Report in the following form:

[Name of the Agency] Financial Management Compliance Attestation Statement

[Where the Agency has not identified a Material Compliance Deficiency in relation to the relevant year:]

I [\[name of member of the Responsible Body\]](#), on behalf of the Responsible Body⁴, certify that the [name of the Agency] has complied with the applicable Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and Instructions.

OR

[Where the Agency has identified a Material Compliance Deficiency in relation to the relevant year:]

I [\[name of member of the Responsible Body\]](#), on behalf of the Responsible Body⁵, certify that the [name of the Agency] has complied with the applicable Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and Instructions except for the following Material Compliance Deficiencies:

[Insert reference to relevant Direction, e.g. Direction 3.2.1.2(b)] [Insert brief summary of the reasons for/circumstances of the Material Compliance Deficiency]. [Insert details of planned and completed remedial actions].

⁴ The words 'on behalf of the Responsible Body' should be removed if the Responsible Body is the Accountable Officer e.g. the department secretary.

⁵ The words 'on behalf of the Responsible Body' should be removed if the Responsible Body is the Accountable Officer e.g. the department secretary.

Source reference

Guidance – Attestation for financial management compliance with *Ministerial Standing Direction 5.1.4*

Legislative and documented references

Revised
SD 5.1.2 to 5.1.4

The Standing Directions now include an attestation of financial management compliance in an Agency's annual report. The Directions aim to improve compliance through the increased accountability and transparency of a public attestation and strengthened audit committee and internal audit function roles.

The below annual assessment process and detailed reviews by the internal audit function support the public attestation.

Revised
SD 5.1.2

Annual assessment of financial management compliance

- The Responsible Body must conduct an annual assessment of compliance with all applicable requirements in the FMA, the Directions and the Instructions.
- The Audit Committee must review the assessment.

Revised
SD 5.1.3

Detailed periodic review of financial management compliance

- The Responsible Body must ensure that the internal audit function conducts a detailed review of the Agency's compliance with all requirements in the FMA, these Directions and the Instructions over the period specified (three or four years).
- The period of review must be the same as the period of the strategic internal audit plan.
- A plan for the review must be included in the strategic internal audit plan.

Revised
SD 5.1.4

Financial management compliance attestation⁶

- The Responsible Body, or a member of the Responsible Body, must, in the Agencies' Annual Report, in relation to the relevant financial year, attest to compliance with applicable requirements in the FMA, the Directions and the Instructions, and disclose all Material Compliance Deficiencies.
- The compliance attestation must relate to compliance for the entire period of the relevant financial year.
- The Audit Committee must review the attestation.

Note that the previous Risk management and insurance attestation (previously mandated under Direction 3.7.1) will cease in 2017-18 and become part of the overarching public attestation with the Directions and Instructions.

⁶ This attestation should take into account the advice from the Audit Committee.

Source reference

Guidance – Attestation for financial management compliance with Ministerial Standing Direction 5.1.4 (continued)

Guidance

From 2017-18, a public attestation against all applicable Standing Directions and Instructions will be required in each Agency's annual report.

The Responsible Body of an Agency (Department or Public Body) is responsible for the accuracy and completeness of attestation and must utilise audit committees or other internal governance bodies, where available, to support the view expressed. For a Department, the Secretary/Accountable Officer is the Responsible Body. For Public Bodies, it is the board or the person with ultimate decision making authority.

Attestation of compliance should be made annually in the report of operations and the person making the attestation usually the Secretary/Accountable Officer of a Department or member of the Responsible Body (for example the Chair of the Board) of a Public Body, should not make the attestation unless the audit committee agrees that such an assurance can be given.

An Agency must only complete one attestation and the format will depend on whether a material deficiency has been identified (see attached templates).

Source reference

Revised

Compliance with DataVic Access Policy

Consistent with the DataVic Access Policy issued by the Victorian Government in 2012, the [insert relevant department name] made [insert number] data sets available on the DataVic website in 2017-18. Information included in this Annual Report will also be available at www.data.vic.gov.au in electronic readable format. [Note: suitable formats are CSV, XLS, XML etc., PDF and Word are not suitable formats.]

Guidance – DataVic Access Policy

Guidance

In August 2012, the Victorian Government released the DataVic Access Policy, which enables the sharing of Government data at no, or minimal, cost to users. Government data from all agencies will be progressively supplied in an electronic readable format that will minimise access costs and maximise use and reuse.

Entities are encouraged to include in their annual report this statement if applicable.

Agencies are also encouraged to incorporate DataVic Access Policy achievements into their annual report. Suggested items include:

- outcomes from the previous year's program of works targets;
- a list of categories of datasets that have been made available;
- suggestions for datasets received and the outcome of the suggestions;
- feedback for datasets received and the outcome of the feedback;
- any known benefits of making datasets available achieved to date; and
- strategies for the coming year, including a list of proposed categories of datasets to be made available.

For further information, please see the DataVic Access Policy and Guidelines at: www.data.vic.gov.au/policy-and-standards-0.

Revised

DISCLOSURE INDEX

FRD 10A

[The disclosure index is best disclosed as the first appendix of an entity's annual report.]

The annual report of the Department is prepared in accordance with all relevant Victorian legislations and pronouncements. This index has been prepared to facilitate identification of the Department's compliance with statutory disclosure requirements.

| <i>Legislation</i> | <i>Requirement</i> | <i>Page reference</i> |
|--|---|-----------------------|
| <i>Ministerial Directions & Financial Reporting Directions</i> | | |
| <i>Report of operations</i> | | |
| Charter and purpose | | |
| FRD 22H | Manner of establishment and the relevant Ministers | Page 13 |
| FRD 22H | Purpose, functions, powers and duties | Page 14 |
| FRD 8D | Departmental objectives, indicators and outputs | Page 17 |
| FRD 22H | Key initiatives and projects | Page 20 |
| FRD 22H | Nature and range of services provided | Page 13 |
| Management and structure | | |
| FRD 22H | Organisational structure | Page 34 |
| Financial and other information | | |
| FRD 8D | Performance against output performance measures | Page 19 |
| FRD 8D | Budget portfolio outcomes | Page 25 |
| FRD 10A | Disclosure index | Page 74 |
| FRD 12B | Disclosure of major contracts | Page 52 |
| FRD 15E | Executive officer disclosures | Page 45 |
| FRD 22H | Employment and conduct principles | Page 40 |
| FRD 22H | Occupational health and safety policy | Page 35 |
| FRD 22H | Summary of the financial results for the year | Page 26 |
| FRD 22H | Significant changes in financial position during the year | Page 27 |
| FRD 22H | Major changes or factors affecting performance | Page 27 |
| FRD 22H | Subsequent events | Page 32 |
| FRD 22H | Application and operation of <i>Freedom of Information Act 1982</i> | Page 52 |
| FRD 22H | Compliance with building and maintenance provisions of <i>Building Act 1993</i> | Page 54 |
| FRD 22H | Statement on Competitive Neutrality Policy | Page 54 |
| FRD 22H | Application and operation of the <i>Protected Disclosure Act 2012</i> | Page 55 |
| FRD 22H | Application and operation of the <i>Carers Recognition Act 2012</i> | Page 56 |
| FRD 22H | Details of consultancies over \$10 000 | Page 50 |
| FRD 22H | Details of consultancies under \$10 000 | Page 50 |
| FRD 22H | Disclosure of government advertising expenditure | Page 49 |
| FRD 22H | Disclosure of ICT expenditure | Page 51 |
| FRD 22H | Statement of availability of other information | Page 69 |
| FRD 24D | Reporting of office-based environmental impacts | Page 59 |
| FRD 25C | Victorian Industry Participation Policy disclosures | Page 47 |
| FRD 29C | Workforce data disclosures | Page 41 |
| SD 5.2 | Specific requirements under Standing Direction 5.2 | Page 11 |
| Compliance attestation and declaration | | |
| SD 5.1.4 | Attestation for compliance with Ministerial Standing Direction | Page 70 |
| SD 5.2.3 | Declaration in report of operations | Page 12 |
| <i>Financial statements</i> | | |
| Declaration | | |
| SD 5.2.2 | Declaration in financial statements | Page 80 |

Source reference

| <i>Legislation</i> | <i>Requirement</i> | <i>Page reference</i> |
|---|---|--|
| Ministerial Directions & Financial Reporting Directions | | |
| Other requirements under Standing Directions 5.2 | | |
| SD 5.2.1(a) | Compliance with Australian accounting standards and other authoritative pronouncements | Page 96 |
| SD 5.2.1(a) | Compliance with Ministerial Directions | Page 80 |
| SD 5.2.1(b) | Compliance with Model Financial Report | [Entities to determine as appropriate] |
| Other disclosures as required by FRDs in notes to the financial statements ^(a) | | |
| FRD 9B | Departmental Disclosure of Administered Assets and Liabilities by Activity | Page 116 |
| FRD 11A | Disclosure of Ex gratia Expenses | Page 202 |
| FRD 13 | Disclosure of Parliamentary Appropriations | Page 98 |
| FRD 21C | Disclosures of Responsible Persons, Executive Officers and other Personnel (Contractors with Significant Management Responsibilities) in the Financial Report | Page 215 |
| FRD 103G [pending] | Non-Financial Physical Assets | Page 125 |
| FRD 110A | Cash Flow Statements | Page 90 |
| FRD 112D | Defined Benefit Superannuation Obligations | Page 108 |
| <i>Note:</i> | | |
| (a) References to FRDs have been removed from the Disclosure Index if the specific FRDs do not contain requirements that are of the nature of disclosure. | | |
| Legislation | | |
| | <i>Freedom of Information Act 1982</i> | Page 52 |
| | <i>Building Act 1993</i> | Page 54 |
| | <i>Protected Disclosure Act 2012</i> | Page 55 |
| | <i>Carers Recognition Act 2012</i> | Page 56 |
| | <i>Victorian Industry Participation Policy Act 2003</i> | Page 47 |
| | <i>Financial Management Act 1994</i> | Page 96 |

Guidance – Disclosure index

FRD 10A

FRD 10A requires entities to include a disclosure index in their annual reports that report the following:

- a list identifying the relevant clauses of Victorian legislation with statutory disclosure requirements that the entity has to comply with;
- a short description of the relevant requirements; and
- the page in the annual report where the disclosure for each requirement is made.

The disclosure index is usually presented as the first appendix at the end of the annual report.

DEPARTMENT OF TECHNOLOGY – MODEL FINANCIAL STATEMENTS

How this report is structured

The Department of Technology (Department) has presented its audited general purpose financial statements for the financial year ended 30 June 2018 in the following structure to provide users with the information about the Department's stewardship of resources entrusted to it.

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Guidance: Financial report structure

A complete set of financial statements comprises the following:

- a statement of financial position (or balance sheet);
- a statement of profit or loss and other comprehensive income;
- a statement of changes in equity;
- a statement of cash flows (together the '**Financial Statements**');
- notes, comprising a summary of significant accounting policies and other explanatory information; and
- comparative information in respect of the preceding period. [AASB 101.10]

Contents of the notes to the financial statements

The notes to the financial statements of an entity shall:

- present information about the basis of preparation;
- disclose the information required by AASs that is not presented in the face of the financial statements;
- provide additional information that is relevant to an understanding of the financial statements and that is not disclosed elsewhere; and
- be presented in a systematic manner with cross references to the financial statements or any related information in the notes [AASB 101.112 113];
- contain a statement of compliance with AASs; [AASB 1054.7] and
- contain a summary of significant accounting policies relevant to understanding the information presented in the financial statements, including the measurement bases used in preparing the financial statements. [AASB 101.117]

DECLARATION IN THE FINANCIAL STATEMENTS

The attached financial statements for the Department of Technology have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including interpretations, and other mandatory professional reporting requirements. [SD 5.2.1, 5.2.2(b)]

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2018 and financial position of the Department at 30 June 2018.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate. [SD 5.2.2(b)]

We authorise the attached financial statements for issue on 14 August 2018.

.....
R Mclvor

Chief Finance Officer
Department of Technology

Melbourne
14 August 2018

.....
J Smith

Secretary
Department of Technology

Melbourne
14 August 2018

Guidance: Declaration in financial statements

The Accountable Officer is required to implement and maintain a process to ensure the agency's annual report is prepared in accordance with the *Financial Management Act 1994* (FMA), the Standing Directions (SD) and its supporting Instructions, applicable Australian Accounting Standards (AASs) and Financial Reporting Directions (FRDs). [SD 5.2.1]

The general purpose financial statements of a government department should form part of, or be presented in a manner which enables it to be read in conjunction with, the annual report of that government department. To that end, SD 5.2.2 requires that the financial statements of agencies must, where applicable, be signed and dated by the Accountable Officer and Chief Finance Officer (CFO) and a member of the Responsible Body. [SD 5.2.2]

For departments, as the Secretary also represents the responsible body, only two signatories are required for the departmental financial statements. For public bodies, if the Accountable Officer or the CFO is a member of the public body's board, two signatories are required. However, if the Accountable Officer or the CFO is not a member of the public body's board, then three signatures are required.

Direction 2.4.5 requires a CFO to be suitably experienced, hold a graduate or post graduate qualification in accounting or other relevant discipline granted by a tertiary provider, and keep their knowledge and expertise up to date with current developments in financial management and AASs. [SD2.4.5]

What constitutes a relevant discipline will depend on the judgement of the Accountable Officer having regard to the circumstances of the entity. It may include a qualification in finance, business or economics and relevant prior experience.

It is recommended, but not mandatory, that CFOs hold a professional designation such as a membership of Certified Practising Accountants Australia or Chartered Accountants Australia and New Zealand as it will help them comply with the requirement to keep their knowledge and expertise up to date with current developments in financial management and AASs. [SD 5.2.2]

Abolished agencies and declaration in financial statements required by SD 5.2.2

In circumstances where an entity has been or is expected to be abolished, the entity is strongly encouraged to engage with the Department of Treasury and Finance (DTF) as early as practicable to determine the arrangements for reporting, including who will sign the declaration in financial statements as required by SD 5.2.2.

DTF expects that transitional arrangements (for instance, by way of legislation or legislative instrument) to make provisions for the authorisation of the final set of financial statements. In the absence of any such provisions, the agency taking on the bulk of the abolished agencies' ongoing operations should take on the responsibility for meeting the requirements of SD 5.2.2.

Guidance: Declaration in financial statements (continued)

If, for any reason, no such agency exists and no provision has been made regarding the final set of financial statements, the entity to be wound up should seek independent legal advice and liaise with DTF to agree to appropriate arrangements on a case by case basis.

In the absence of an existing CFO in the abolished entity, it is recommended that any one signing a declaration in the place of a CFO is required to have the experience and qualifications of CFOs as suggested above.

Declaration details

The declaration must state that in the joint opinion of the signing persons:

- (a) the financial statements present fairly the financial position, financial performance and cash flows of an entity; [AASB101.15] and
- (b) the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact. [AASB101.17]

Independent Auditor's Report

To the Secretary of the Department of Technology

| | |
|--------------------------|---|
| Opinion | <p>I have audited the financial report of the Department of Technology (the department) which comprises the:</p> <ul style="list-style-type: none"> • balance sheet as at 30 June 2018 • comprehensive operating statement for the year then ended • statement of changes in equity for the year then ended • cash flow statement for the year then ended • notes to the financial statements, including significant accounting policies • Secretary's declaration in the financial statements. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the department as at 30 June 2018 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p> |
| Basis for Opinion | <p>I have conducted my audit in accordance with the <i>Audit Act 1994</i>, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the department in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p> |
| Key audit matters | <p>Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.</p> |

| Key audit matter | How I addressed the matter |
|--|--|
| <p>Fair value of property, plant and equipment <i>Refer to Notes 5.1, 8.3 and 9.4 of the financial report</i></p> <p>- Property, plant and equipment (PP&E) \$83 million (of this amount, \$70 million or 84% was revalued during the year) - Physical asset revaluation surplus - \$7.3 million</p> <p>I considered this to be a key audit matter because of the:</p> <ul style="list-style-type: none"> financial significance of the assets valued extent of significant management judgements underpinning key assumptions used in the valuation process. These included estimating remaining assets' useful lives and current replacement costs, particularly in relation to specialised building assets risk that related disclosures may be incorrect or insufficient due to the judgement and complexities associated with application of AASB 13 <i>Fair Value Measurement</i> requirements. <p>These conditions gave rise to additional audit effort to gather audit evidence and to challenge the key assumptions adopted by the management to record the valuation increment in the current year.</p> <p>Management's external valuation experts performed current year valuations of PP&E. They used valuation models incorporating level 3 inputs within the fair value hierarchy. This means the significant inputs and assumptions used in the valuation model are unobservable (not based on market data) and are therefore more subjective as they require significant management judgement.</p> | <p>My key procedures included:</p> <ul style="list-style-type: none"> evaluating the nature and extent of management's oversight and review of the fair values arrived at by external valuation expert assessing the appropriateness and skills of management's external valuation expert testing the department's internal controls over the identification of all the relevant assets for revaluation assessing the sufficiency and appropriateness of the approved valuation methodology against the requirements of applicable Australian accounting standards and the Minister for Finance's financial reporting directions comparing management's fair value assessment against independent information we obtained by obtaining copies of all relevant external valuation reports and: <ul style="list-style-type: none"> assessing the appropriateness of the methodology and assumptions adopted, including those regarding assets' useful lives and the overall reasonableness of the valuation agreeing the valuation amounts to those reported in the department's sub asset ledger and general ledger assessing the completeness and adequacy of the financial statement disclosures against the requirements of applicable Australian accounting standards and the Minister for Finance's financial reporting directions. |

HOW THIS REPORT IS STRUCTURED

| | |
|---|---|
| Secretary's responsibilities for the financial report | <p>The Secretary of the department is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Secretary is responsible for assessing the department's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p> |
| Auditor's responsibilities for the audit of the financial report | <p>As required by the <i>Audit Act 1994</i>, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.</p> <p>As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:</p> <ul style="list-style-type: none">• identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary• conclude on the appropriateness of the Secretary's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the department's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the department to cease to continue as a going concern.• evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation. |

| | |
|--|---|
| <p>Auditor’s responsibilities for the audit of the financial report (continued)</p> | <p>I communicate with the Secretary regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.</p> <p>From the matters communicated to the Secretary, I determine those matters that were of most significance in the audit of the financial report of the current period and therefore are the key audit matters. I describe these matters in the auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.</p> |
|--|---|

MELBOURNE
9 April 2018

Andrew Greaves
Auditor-General

SAMPLE

Comprehensive operating statement

For the financial year ended 30 June 2018

(\$ thousand)

| Source reference | For illustrative purposes only | Notes | 2018 | 2017 |
|--------------------------------|--|-------|-----------------|-----------------|
| | Continuing operations | | | |
| | Income from transactions | | | |
| AASB 101.82(a) | Output appropriations | | 85 535 | 63 682 |
| AASB 1004.63(a) | Special appropriations | | 8 128 | 11 396 |
| AASB 118.35(b)(iii) | Interest | 2.4.1 | 3 864 | 2 897 |
| AASB 118.35(b)(i) | Sale of goods and services | 2.4.2 | 1 839 | 1 346 |
| | Grants | 2.4.3 | 306 | 140 |
| AASB 1004.62 | Fair value of assets and services received free of charge or for nominal consideration | 2.4.4 | 1 589 | 1 708 |
| AASB 101.85 | Other income | 2.4.5 | 6 213 | 5 091 |
| | Total income from transactions | | 107 474 | 86 260 |
| | Expenses from transactions | | | |
| AASB 101.99 | Employee expenses | 3.1.1 | (13 767) | (10 970) |
| AASB 101.85 | Depreciation | 5.1.1 | (15 099) | (12 157) |
| AASB 101.85 | Interest expense | 7.1 | (2 366) | (2 336) |
| AASB 101.82(b) | Grant expenses | 3.2 | (32 883) | (43 040) |
| AASB 101.85 | Capital asset charge | 3.3 | (1 309) | (720) |
| AASB 101.82(b) | Other operating expenses | 3.4 | (15 828) | (8 197) |
| AASB 101.85 | Total expenses from transactions | | (81 252) | (77 421) |
| | Net result from transactions (net operating balance) | | 26 223 | 8 839 |
| | Other economic flows included in net result | | | |
| AASB 1049.32 | Net gain/(loss) on non-financial assets ^(a) | 9.2 | (5 161) | 1 805 |
| AASB 101.85-86 | Net gain/(loss) on financial instruments ^(b) | 9.2 | (5 891) | (3 971) |
| AASB 101.98(c) | Share of net profits/(losses) of associates and joint entities, excluding dividends | 9.2 | 1 286 | 1 397 |
| AASB 101.82(c) | Other gains/(losses) from other economic flows | 9.2 | (2 895) | (2 047) |
| | Total other economic flows included in net result | | (12 661) | (2 816) |
| AASB 101.85 | Net result from continuing operations | | 13 562 | 6 023 |
| AASB 5.33(a) | Net result from discontinued operations | 9.3.3 | 1 229 | 3 856 |
| | Net result | | 14 790 | 9 879 |
| AASB 101.85 | Other economic flows – other comprehensive income: | | | |
| | Items that will not be reclassified to net result | | | |
| AASB 101.82A(a) | Changes in physical asset revaluation surplus ^(c) | 9.4 | 7 403 | 2 825 |
| AASB 101.82A(b) AASB 128.39 | Share of net movement in revaluation surplus of associates and joint ventures | 9.4 | 260 | 280 |
| | Items that may be reclassified subsequently to net result | | | |
| AASB 7.20(a)(ii) | Changes to financial assets available-for-sale revaluation surplus ^(c) | 9.4 | (1 250) | 996 |
| | Total other economic flows – other comprehensive income | | 6 413 | 4 101 |
| AASB 101.8 | Comprehensive result | | 21 203 | 13 980 |

The accompanying notes form part of these financial statements.

Notes:

- (a) 'Net gain/(loss) on non-financial assets' includes unrealised and realised gains/(losses) from revaluations, impairments, and disposals of all physical assets and intangible assets, except when these are taken through the asset revaluation surplus.
- (b) 'Net gain/(loss) on financial instruments' includes bad and doubtful debts from other economic flows, unrealised and realised gains/(losses) from revaluations, impairments and reversals of impairment, and gains/(losses) from disposals of financial instruments, except when these are taken through the financial assets available for sale revaluation surplus.
- (c) Changes in revaluation surplus excludes share of net movement in associates and joint ventures, which is disclosed separately.

Guidance – Comprehensive operating statement

Presentation of comprehensive operating statement

Income and expense items are classified within the comprehensive operating statement depending on whether they arise from ‘**transactions**’ or ‘**other economic flows included in net result**’. In addition, the comprehensive operating statement also presents movements due to changes in non-owner equity under ‘**other economic flows – other comprehensive income**’. All owner changes in equity in their capacity as owners can be found in the statement of changes in equity. [AASB 1049.29 and 1049.30] (See *guidance below*.)

In the ‘**net result from transactions**’ section:

Transactions are those economic flows that arise as a result of policy decisions, usually interactions between two entities by mutual agreement, and also flows within an entity. Taxation is regarded as mutually agreed interactions between the Government and taxpayers. Transactions can be cash or in kind. In simple terms, transactions arise from the policy decisions of the Government.

Minimum requirements in AASB 101.82:

- revenue;
- finance costs; and
- tax expense (NTER entities).

In the ‘**other economic flow included in net result**’ section:

This section includes changes in the volume or value of an asset or liability that do not result from transactions. It includes:

- gains and losses from disposals; revaluations and impairments of non-financial physical and intangible assets;
- fair value changes of financial instruments and agricultural assets;
- depletion of natural assets (non-produced) from their use or removal;
- share of the profit or loss of equity accounted investments; and
- a single amount for the total of discontinued operations.

In the ‘**other economic flow other comprehensive income**’ section:

It presents line items for amounts classified by nature and grouped into those that:

- will not be reclassified subsequently to profit or loss; or
- will be reclassified subsequently to profit or loss when specific conditions are met.

It includes:

- changes in physical asset revaluation surpluses;
- share of movements of other comprehensive income of equity accounted investments; and
- changes in available for sale revaluation surplus.

Classification of expenses by nature or function: Expenses must be classified and presented (either in the comprehensive operating statement or in the related notes) based on either their nature or their function, whichever provides information that is reliable and more relevant. [AASB 101.99 and 101.100]

Regardless of whether expenses are classified by nature or by function, each material class is separately disclosed.

National Tax Equivalent Regime (NTER): Those entities that are subject to NTER are required to disclose in the comprehensive operating statement ‘net result for the period before income tax’, ‘income tax expense’, and ‘net result for the period after income tax’. Similarly, items of other comprehensive income are required to be presented net of tax effects. [AASB 101.90 91]

Material items of income and expense: When items of income and expense are material, their nature and amount shall be disclosed separately either in the comprehensive operating statement or in the notes to the financial statements. [AASB 101.97]

Further, an entity shall disclose, either in the comprehensive operating statement or in the notes, any amounts related to components of other comprehensive income that are reclassified to net result in the current period, that were previously recognised in other comprehensive income in the current or previous periods.

Additional disclosures: Additional disclosures (such as additional line items, headings and subtotals) shall be presented in the statement(s) presenting profit or loss and other comprehensive income when it is relevant to an understanding of the financial performance of the entity [AASB 101.85], subject to those disclosures being consistent with requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

General guidance for 2017-18 Model Report Financial Statements

Streamlining tips

Where there are no amounts applicable to any individual line item, that line item should be omitted from the comprehensive operating statement, balance sheet, cash flow statement and statement of changes in equity.

When such presentation is relevant to the understanding of the entity’s financial position, additional line items, headings and subtotals shall be presented in the comprehensive operating statement, balance sheet. Cash flow statement and statement of changes in equity.

New Accounting Standards [New]

The Australian Accounting Standard Board has issued a suite of new accounting standards that may have a financial impact on Departments. (i.e. AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Lease* and AASB 1058 *Income of Not-for-Profit Entities*). Preparers should consider the impact of application of these new standards for disclosure. For more guidance, please refer to Appendices 11 to 13 on the new standards and upcoming FRD 120L *Accounting and reporting pronouncements applicable to the 2017-18 reporting period*.

BALANCE SHEET

Balance sheet

As at 30 June 2018

(\$ thousand)

| Source reference | For illustrative purposes only | Notes | 2018 | 2017 |
|------------------|---|-------|----------------|----------------|
| AASB 101.60 | Assets | | | |
| AASB 101.58(a) | Financial assets | | | |
| AASB 101.54(i) | Cash and deposits | 7.3 | 59 528 | 48 648 |
| AASB 101.54(h) | Receivables | 6.1 | 36 045 | 20 544 |
| AASB 101.54(j) | Financial assets classified as held for sale including disposal group assets | 9.3 | 8 572 | 11 757 |
| AASB 101.54(d) | Investments and other financial assets | 5.6 | 13 976 | 16 731 |
| AASB 101.54(e) | Investments accounted for using the equity method | 5.5 | 5 187 | 6 112 |
| | Total financial assets | | 123 308 | 103 792 |
| AASB 101.58(a) | Non-financial assets | | | |
| AASB 101.54(g) | Inventories | 6.3 | 12 056 | 19 733 |
| AASB 101.54(j) | Non-financial physical assets classified as held for sale including disposal group assets | 9.3.6 | 6 781 | 14 599 |
| AASB 101.54(a) | Property, plant and equipment | 5.1 | 83 044 | 76 807 |
| AASB 101.54(f) | Biological assets | 5.3 | 4 034 | .. |
| AASB 101.54(b) | Investment properties | 5.2 | 2 354 | 5 029 |
| AASB 101.54(c) | Intangible assets | 5.4 | 5 974 | 7 447 |
| | Other non-financial assets | 6.4 | 1 483 | 380 |
| | Total non-financial assets | | 115 726 | 123,995 |
| | Total assets | | 239 034 | 227 787 |
| AASB 101.58(a) | Liabilities | | | |
| AASB 101.54(k) | Payables | 6.2 | 17 591 | 16 704 |
| AASB 101.54(m) | Borrowings | 7.1 | 62 074 | 65 548 |
| | Employee related provisions | 3.1.2 | 10 754 | 17 073 |
| AASB 101.54(l) | Other provisions | 6.5 | 2 152 | 3 938 |
| | Other liabilities | | 592 | 583 |
| AASB 101.54(p) | Liabilities directly associated with assets classified as held for sale including disposal groups | 9.3.5 | 4 438 | 8 980 |
| | Total liabilities | | 97 601 | 112 826 |
| | Net assets | | 141 432 | 114 961 |
| | Equity | | | |
| | Accumulated surplus/(deficit) | | 76 434 | 71 133 |
| AASB 101.54(r) | Physical asset revaluation surplus | 9.4 | 7 338 | 3 759 |
| AASB 101.54(r) | Financial assets available for sale revaluation surplus | 9.4 | 200 | 1 723 |
| AASB 101.54(r) | Contributed capital | | 57 460 | 38 345 |
| | Net worth | | 141 432 | 114 961 |

The accompanying notes form part of these financial statements.

Guidance – Balance sheet

Presentation of the balance sheet

The balance sheet (face) presents:

- line items in liquidity order; and
- assets split into financial and non-financial assets.

Assets and liabilities are presented based on the order of liquidity in the balance sheet. The presentation of 'current' and 'non-current' assets and liabilities are in the notes. [AASB 101.60, 61 and AASB 1049]

Sub-classification of line items: Depending on the size, nature and function of the amounts involved and requirements of AAS, the balance sheet line items must be sub-classified in a manner appropriate to the entity's operations (either in the balance sheet or in the related notes). [AASB 101.77 and 101.78]

Refinancing liabilities – Classification: Financial liabilities shall be categorised as current (notes) when they are due to be settled within 12 months of reporting period, even if:

- the original term was for a period longer than 12 months; and
- an agreement to refinance, or to reschedule payments, beyond 12 months, is completed after the reporting period but before the financial statements are authorised for issue.

If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing facility, the obligation will be classified as non-current. However, when refinancing or rolling over the obligation is not at the discretion of the entity, the obligation will be classified as current. [AASB 101.72 and 101.73] **Breach of loan covenants – Classification:** Where an undertaking, including a covenant included in a borrowing agreement, is breached such that the obligation becomes payable on demand, the liability shall be categorised as current (even if the lender has agreed, after the reporting period not to demand payment as a consequence of the breach).

Conversely, the obligation is classified as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, in which the breach could be rectified and during which the lender cannot demand immediate repayment. [AASB 101.74 and 101.75]

Minimum information to be presented [AASB 101.54, 55]

Assets

- Cash and cash equivalents;
- trade and other receivables;
- inventories;
- assets held for sale;
- investment property;
- biological assets;
- current tax assets;
- deferred tax assets;
- investments accounted for using the equity method;
- financial assets (not elsewhere presented);
- the total assets classified as held for sale and assets included in disposal groups classified as held for sale; [AASB 5]
- property, plant and equipment; and
- intangible assets.

Liabilities

- Trade and other payables;
- liabilities held for sale;
- current tax liabilities;
- deferred tax liabilities;
- liabilities included in disposal groups classified as held for sale; [AASB 5]
- financial liabilities; and
- provisions.

CASH FLOW STATEMENT

Cash flow statement

For the financial year ended 30 June 2018

(\$ thousand)

| Source reference | For illustrative purposes only | Notes | 2018 | 2017 |
|------------------------|--|-------|-----------------|-----------------|
| AASB 107.10 | Cash flows from operating activities | | | |
| | Receipts | | | |
| | Receipts from government | | 78 344 | 87 135 |
| | Receipts from other entities | | 5 536 | 4 373 |
| AASB 107.31 | Interest received | | 1 749 | 1 606 |
| AASB 107.31 | Dividends received ^(a) | | 1 698 | 1 611 |
| | Other receipts | | 516 | 262 |
| | Total receipts | | 87 843 | 94 987 |
| | Payments | | | |
| | Payments of grant expenses | | (36 227) | (47 011) |
| AASB 101.14(c)(d) | Payments to suppliers and employees | | (22 979) | (19 167) |
| Interpretation 1031.11 | Goods and services tax paid to the ATO ^(b) | | (3 055) | (3 497) |
| | Capital asset charge payments | | (1 567) | (952) |
| AASB 107.31 | Interest and other costs of finance paid | | (2 427) | (2 507) |
| | Other payments | | (6 382) | (3 200) |
| | Total payments | | (72 637) | (76 334) |
| | Net cash flows from/(used in) operating activities | 7.3.1 | 15 207 | 18 654 |
| AASB 107.10 | Cash flows from investing activities | | | |
| AASB 107.16(c) | Payments for investments ^(c) | | (6 364) | (13 386) |
| AASB 107.16(d) | Proceeds from sale of investments ^(c) | | 7 857 | 2 409 |
| AASB 107.16(a) | Purchases of non-financial assets | | (23 828) | (19 438) |
| AASB 107.16(b) | Sales of non-financial assets | | 2 855 | 7 428 |
| AASB 107.16(e) | Loans granted to other parties ^(d) | | (390) | (277) |
| AASB 107.16(f) | Repayments of loans from other parties ^(d) | | 78 | 140 |
| | Proceeds from disposal of activity | 5.7.2 | 17 795 | .. |
| | Payments for purchase of activity | | (23 407) | .. |
| | Net cash flows from/(used in) investing activities | | (25 403) | (23 124) |
| AASB 107.10 | Cash flows from financing activities | | | |
| | Cash received from activities transferred in – machinery of government changes | | 5 | .. |
| | Cash transferred on activities transferred out – machinery of government changes | | (3 072) | .. |
| | Owner contributions by State Government – appropriation for capital expenditure purposes | | 5 750 | 10 500 |
| AASB 107.17(c) | Proceeds from borrowings | | 34 673 | 7 255 |
| AASB 107.17(d)(e) | Repayment of borrowings and finance leases | | (6 749) | (4 044) |
| | Net cash flows from/(used in) financing activities | | 30 607 | 13 711 |
| | Net increase/(decrease) in cash and cash equivalents | | 20 411 | 9 241 |
| | Cash and cash equivalents at beginning of financial year | | 44 494 | 35 094 |
| AASB 107.28 | Effect of exchange rate fluctuations on cash held in foreign currency | | (471) | 160 |
| | Cash and cash equivalents at end of financial year | 7.3 | 64 434 | 44 494 |
| | Non-cash transactions | 7.3.2 | | |

The accompanying notes form part of these financial statements.

Notes:

- (a) 'Dividends received' is recognised as cash flow from operating activities. In contrast, 'dividends paid' is recognised as cash flow from financing activities.
- (b) GST paid to the Australian Taxation Office is presented on a net basis.
- (c) Includes equity and debt instruments of other entities and interests in joint ventures, other than for those instruments considered to be cash equivalents and those held for dealing or trading purposes.
- (d) Includes loans granted to/from entities external to the Department and related entities.

Guidance – Cash flow statement

Reporting cash flows

An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business.

Although there are two methods for reporting cash flows, the direct or indirect method. DTF supports the use of the direct method, and this method is adopted for this Model. [AASB 107.11, 107.18]

Operating activities [AASB 107.14]: Cash flows from operating activities are primarily derived from principal income generating activities and therefore generally arise from transactions and other events used in the determination of net result. Examples of cash inflows and/or outflows from operating activities are associated with:

- (a) the sale of goods and the rendering of services;
- (b) royalty, fees, commissions and other income;
- (c) payments to suppliers for goods and services, including purchases of inventory;
- (d) cash payments to and on behalf of employees;
- (e) premiums and claims, annuities and other policy benefits (for insurance entities);
- (f) income taxes (only applicable to those entities subject to the National Tax Equivalent Regime);
- (g) contracts held for dealing or trading purposes;
- (h) cash dividends received; and [FRD 110]
- (i) interest income and expense *separately*. [FRD 110]

Investing activities [AASB 107.16]: These cash flows are used in acquiring assets (or disposal of those assets) intended to generate future income and cash flows. For cash outflows, unless it gives rise to an asset on the balance sheet, it cannot be classified as part of 'investing activities'. For instance, cash expended on research and development activities, can only be disclosed as cash flows from investing activity when the asset is recognised on the balance sheet.

Examples of cash flows arising from investing activities are cash inflows (disposals) or cash payments (acquisition) associated with:

- (a) acquisition (outflow) or disposal (inflow) of property, plant and equipment, intangibles and other long-term assets (including development costs and self-constructed property, plant and equipment); and
- (b) acquisition (outflow) or disposal (inflow) of equity or debt instruments of other entities and interests in joint ventures.

However, if the debt or equity instrument is classified as 'cash equivalents' or held for dealing or trading purposes, then these are not recorded as part of 'investing activities'. This includes:

- (a) cash advances and loans made (outflows) and receipts from the repayment of advances or loans made (inflows) to other parties (unless those advances are made by a financial institution); and
- (b) payments (outflows) or receipts (inflows) associated with futures contracts, forward contracts, option contracts and swap contracts (unless those contracts are classified as 'held for dealing or trading purposes', or the payments are classified as financing activities in accordance with the guidance below).

Financing activities [AASB 107.21, 107.17]: Cash flows from financing activities provide information on sources of financing (debt and equity) and could also be indicative of how the providers of capital will claim future cash flows. Examples of cash inflows or cash outflows associated with financing activities are:

- (a) proceeds from issuing shares or other equity instruments and cash payments to owners to acquire or redeem shares or other equity instruments;
- (b) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings or repayments of those amounts borrowed; and
- (c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Cash received/transferred out due to machinery of government changes

Where applicable, entities should classify 'cash received from activities transferred in' and 'cash transferred from activities transferred out' due to machinery of government (MoG) changes under financing activities rather than investing activities. Those two cash flow items are separately disclosed from 'owner contributions by State Government' as the former reflects cash flows as a result of MoG changes whereas the latter captures appropriations received directly from the State as contributed capital for capital expenditure purposes.

CASH FLOW STATEMENT

Guidance – Cash flow statement (*continued*)

Reporting cash flows on a net basis [AASB 107.21 – 107.24]

Cash inflows and cash outflows shall be reported separately (gross), except when:

- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and
- (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

Cash flows arising from each of the following activities of a financial institution are to be reported on a net basis:

- (a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
- (b) the placement of deposits with and withdrawal of deposits from other financial institutions; and
- (c) cash advances and loans made to customers and the repayment of those advances and loans.

Investments in subsidiaries (at cost), associates and joint ventures (using the equity method)

[AASB 107.37 and 107.38]

The cash flow statement should reflect the cash flows between the investor and either the equity accounted or the cost accounted investments. For example, where the investment is reported using the equity method, the cash flow statement of the investor reflects investments, distributions and other payments or receipts between the investor and the associate or joint venture.

Non-cash transactions [AASB 107.43]: Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Statement of changes in equity

For the financial year ended 30 June 2018

(\$ thousand)

| Source reference | Notes | Physical asset revaluation surplus | Available for sale financial asset revaluation surplus | Accumulated surplus | Contributions by owner | Total |
|---------------------------------------|-------|---------------------------------------|---|------------------------|---------------------------|----------|
| AASB 101.106(d) | | | | | | |
| <i>For illustrative purposes only</i> | | | | | | |
| | | 2 626 | 577 | 59 433 | 27 845 | 90 481 |
| | | .. | .. | 9 879 | .. | 9 879 |
| | | 2 955 | 1 146 | .. | .. | 4 101 |
| | | (1 822) | .. | 1 822 | .. | .. |
| | | .. | .. | .. | 10 500 | 10 500 |
| | | 3 759 | 1 723 | 71 134 | 38 345 | 114 961 |
| | | | | 14 790 | | 14 790 |
| | | 7 613 | (1 200) | .. | .. | 6 413 |
| | 9.4 | (3 396) | (323) | 3 719 | .. | .. |
| | 9.4 | (637) | .. | 637 | .. | .. |
| | 9.4 | .. | .. | (13 847) | 13 847 | .. |
| | | .. | .. | .. | 5 750 | 5 750 |
| AASB 1004.48 | 4.3 | .. | .. | .. | 19 616 | 19 616 |
| AASB 1004.49 | 4.3 | .. | .. | .. | (20 097) | (20 097) |
| | | 7 338 | 200 | 76 433 | 57 461 | 141 432 |

The accompanying notes form part of these financial statement.

Note:

(a) These are amounts transferred from accumulated surplus to contributed capital due to insufficient contributed capital for the purpose of the machinery of government transfer to the Department of Cabinet Administration on 2 August 2017.

STATEMENT OF CHANGES IN EQUITY

Guidance – Statement of changes in equity

Information to be disclosed:

- (a) total comprehensive result for the period, showing separately the total amounts attributable to owners of the parent and to minority interest;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with AASB 108; and
- (c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
 - (i) profit or loss;
 - (ii) each item of other comprehensive income; and/or
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

Presentation of statement of changes in equity

The statement of changes in equity presents reconciliation between the carrying amount of each non-owner and owner equity opening balance at the beginning of the reporting period to the closing balance at the end of the reporting period, showing separately movements included in the comprehensive result and movements due to transactions with owners in their capacity as owners.

Adjustments for changes in accounting policies or correction of prior period errors: Retrospective adjustments as required under AASB 108 are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an AAS requires retrospective adjustment of another component of equity.

Disclosure is required of the total adjustment to each component of equity resulting from changes in accounting policies and from corrections of errors, separately. These adjustments are disclosed for each prior period and the beginning of the period.

For profit guidance: Other entities such as public non-financial corporations (PNFCs) and public financial corporations (PFCs) who pay dividends shall also present, either in the statement of changes in equity or in the notes, the amounts of dividends recognised as distributions to owners during the period, and the related amount per share. When presenting the dividends in the statement of changes in equity, a separate column needs to be added to show the dividends paid. [AASB 101.107]

Events affecting changes in equity: Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners acting in their capacity as owners, and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expenses, including gains and losses, generated by the entity's activities during that period (whether those items of income and expenses are recognised in net result or directly as changes in equity). [AASB 101.109]

1. ABOUT THIS REPORT

The Department of Technology (the Department) is a government department of the State of Victoria, established pursuant to an order made by the Premier under the *Public Administration Act 2004*. It is an administrative agency acting on behalf of the Crown.

Its principal address is:

Department of Technology
1 Victoria Place
Melbourne VIC 3000

A description of the nature of its operations and its principal activities is included in the **Report of operations**, which does not form part of these financial statements. [\[AASB 101.138\]](#)

Basis of preparation

These financial statements are in Australian dollars and the historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis. [\[AASB 101.51\(d\) and AASB 121.11 and 121.53; FRD 104\]](#)

The accrual basis of accounting has been applied in preparing these financial statements, whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid. [\[AASB 101.117\(a\)\]](#)

Consistent with the requirements of AASB 1004 *Contributions*, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of the Department.

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to or distributions by owners have also been designated as contributions by owners.

Transfers of net assets arising from administrative restructurings are treated as distributions to or contributions by owners. Transfers of net liabilities arising from administrative restructurings are treated as distributions to owners. [\[FRD 119A, AASB Interpretation 1038.7\]](#)

Judgements, estimates and assumptions are required to be made about financial information being presented. The significant judgements made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. [\[AASB 101.122 and 101.125\]](#)

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. [\[AASB 108.36\]](#) Judgements and assumptions made by management in applying AAS that have significant effects on the financial statements and estimates are disclosed in the notes under the heading: 'Significant judgement or estimates'.

These financial statements cover the Department of Technology as an individual reporting entity and include all the controlled activities of the Department.

The following agencies have been consolidated into the Department's financial statements pursuant to a determination made by the Minister for Finance under section 53(1)(b) of the *Financial Management Act 1994* (FMA). These agencies are reported in aggregate and are not controlled by the Department:

- **Gene Sciences Victoria**, a business unit, established under the *Biological Technology Act 1998*.
- **The Office of the Commissioner of New Technology** is an administrative unit established under the *New Technology Act 1999*.
- **Innovation Victoria** is an entity established under the *Innovation Victoria Act 2015*.

Where control of an entity is obtained during the financial period, its results are included in the comprehensive operating statement from the date on which control is demonstrated. Where control ceases during a financial period, the entity's results are included for that part of the period in which control existed. Where entities adopt dissimilar accounting policies and their effect is considered material, adjustments are made to ensure consistent policies are adopted in these financial statements.

In preparing consolidated financial statements for the Department, all material transactions and balances between consolidated entities are eliminated.

All amounts in the financial statements have been rounded to the nearest \$1 000 unless otherwise stated. [\[AASB 101.51\(e\)\]](#)

1. ABOUT THIS REPORT

Compliance information

These general purpose financial statements have been prepared in accordance with the FMA and applicable Australian Accounting Standards (AASs) which include Interpretations, issued by the Australian Accounting Standards Board (AASB). In particular, they are presented in a manner consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). [AASB 1054.7]

Where appropriate, those AASs paragraphs applicable to not-for-profit entities have been applied. Accounting policies selected and applied in these financial statements ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. [AASB 101.17]

Guidance – Basis of preparation and compliance information

Reporting entity

Government departments may conduct activities through a variety of administrative and organisational structures. For example, they may manage commercial activities separately from non-commercial activities, operate one or more trust accounts and may undertake a number of activities.

Where a department administers activities on behalf of parties external to the Victorian Government, the nature and amount of the funds under management should be disclosed separately from income, expenses, assets and liabilities in the notes. [AASB 1050.25]

Judgements, estimates and assumptions

In preparing financial statements, the nature of significant judgements, estimates and assumptions made by management need to be disclosed. The following disclosures are required:

- the *fact* that significant assumptions, judgements and estimates were made;
- the *nature* of the significant assumptions, judgements and estimates; and
- *how* these were made (the method used).

Examples include operating lease commitments, valuation of investments, impairment of property, plant and equipment etc. [AASB 101.122 and 101.125]

Key sources of estimation uncertainty [AASB 101.125]

An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature; and
- (b) their carrying amount at the end of the reporting period.

Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. [AASB 101.126]

The disclosures in the paragraph above are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on recently observed market prices. [AASB 101.128]

Other significant judgements

In addition, significant judgements and assumptions made (and changes to those judgements and assumptions) need to be disclosed in determining:

- whether it controls another entity;
- whether it has joint control of an arrangement or significant influence over another entity;
- the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle; [AASB 12.7]
- whether financial assets are held to maturity investments;
- when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;
- whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to income; and
- whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity. [AASB 101.123]

Guidance – Basis of preparation and compliance information (continued)**Basis of consolidation**

AASB 10 *Consolidated Financial Statements* defines the principle of control, and establishes control as the basis for consolidation. Please refer to Appendix 4 on the detailed guidance for application of AASB 10 in the not-for-profit context.

An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining that it has control of another entity (e.g. an investee as described in paragraphs 5 and 6 of AASB 10).

For departments that aggregate entities under section 53(1)(b) of the *Financial Management Act 1994* in their annual report, this following guidance has been provided for use in the relevant note:

'Pursuant to section 53(1)(b) of the *Financial Management Act 1994*, the results of the following entities are reported in aggregate as part of the department's financial statements. These entities are not controlled by the department.

[insert names]'

Rounding of amounts [AASB101.51(e)]

The rounding used in the presentation of amounts in this model financial statements must be prominently displayed. Amounts in the financial statements have been rounded to the nearest \$1 000, unless otherwise stated. Figures in the financial statements may not equate due to rounding. Refer to Note 9.15 for a style convention guide and explanation of minor discrepancies resulting from rounding.

2. FUNDING DELIVERY OF OUR SERVICES

Introduction

The Department of Technology's (the Department) overall objective is to research, develop, promote and support the use of leading edge information, biological technology and telecommunications that bring improvements to the efficiency and effectiveness of government operation, and improvements to the quality of life of Victorians. [FRD 9B, AASB 1052.15(b), AASB 1050.7]

To enable the Department to fulfil its objective and provide outputs as described in Section 4, it receives income (predominantly accrual based parliamentary appropriations). The Department also receives market based fees providing advice and other services in relation to information technology and telecommunications.

Structure

| | | |
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2.1 Summary of income that funds the delivery of our services

(\$ thousand)

| Source reference | Notes | 2018 | 2017 |
|--|---------------------------------------|----------------|---------------|
| Output appropriations | 2.2 | 85 535 | 63 682 |
| Special appropriations | 2.3 | 8 128 | 11 396 |
| Interest | 2.4.1 | 3 864 | 2 897 |
| Sale of goods and services | 2.4.2 | 1 839 | 1 346 |
| Grants | 2.4.3 | 306 | 140 |
| Fair value of assets and services received free of charge or for nominal consideration | 2.4.4 | 1 589 | 1 708 |
| Other income | 2.4.5 | 6 213 | 5 091 |
| AASB 101.97 | Total income from transactions | 107 474 | 86 260 |

Income is recognised to the extent it is probable the economic benefits will flow to the Department and the income can be reliably measured. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes. All amounts of income over which the Department does not have control are disclosed as administered income (see Note 4.2).

2.2 Appropriations

Once annual Parliamentary appropriations are applied by the Treasurer, they become controlled by the Department and is recognised as income when applied for the purposes defined under the relevant Appropriations Act. [AASB 1004.32 37]

Output appropriations: Income from the outputs the Department provides to the Government is recognised when those outputs have been delivered and the relevant minister has certified delivery of those outputs in accordance with specified performance criteria.

Special appropriations: Under section [x] of the [Appropriations] Act, income related to [special appropriation] is recognised when the amount appropriated for that purpose is due and payable by the Department.

2.3 Summary of compliance with annual Parliamentary and special appropriations

The following table discloses the details of the various annual Parliamentary appropriations received by the Department for the year. [FRD 13, AASB 1004.64]

In accordance with accrual output-based management procedures, 'provision of outputs' and 'additions to net assets' are disclosed as 'controlled' activities of the Department. Administered transactions are those that are undertaken on behalf of the State over which the Department has no control or discretion.

(\$ thousand)

| | Appropriations Act | | | Financial Management Act | | | | Total Parliamentary authority | Appropriations applied | Variance ^(a) |
|--------------------------------------|----------------------|------------------------|--------------|--------------------------|------------|------------|------------|-------------------------------|------------------------|-------------------------|
| | Annual appropriation | Advance from Treasurer | Section 3(2) | Section 29 | Section 30 | Section 32 | Section 35 | | | |
| 2018 | | | | | | | | | | |
| Controlled | | | | | | | | | | |
| Provision for outputs | 110 889 | 1 963 | .. | 10 037 | (12 019) | .. | .. | 101 156 | 93 663 | 7 493 |
| Addition to net assets | 6 210 | .. | .. | .. | .. | .. | .. | 6 210 | 5 750 | 460 |
| Administered | | | | | | | | | | |
| Payments made on behalf of the State | - | .. | .. | .. | 12 019 | .. | .. | 12 019 | 12 019 | .. |
| 2018 total | 117 099 | 1 963 | .. | 10 037 | .. | .. | .. | 119 385 | 111 432 | 7 953 |
| 2017 | | | | | | | | | | |
| Controlled | | | | | | | | | | |
| Provision for outputs | 79 854 | .. | 1 000 | 11 403 | (10 869) | 697 | .. | 81 084 | 75 078 | 6 006 |
| Addition to net assets | - | .. | .. | .. | - | .. | .. | .. | .. | .. |
| Administered | | | | | | | | | | |
| Payments made on behalf of the State | - | .. | .. | .. | 10 869 | .. | .. | 10 869 | 10 869 | .. |
| 2017 total | 79 854 | .. | 1 000 | 11 403 | .. | 697 | .. | 91 953 | 85 947 | 6 006 |

Note:

(a) The variance is primarily related to agreed changes in committed projects being delivered in the next financial year.

The following table discloses the details of compliance with special appropriations:

(\$ thousand)

| Authority | Purpose | Appropriations applied | |
|---|---|------------------------|---------------|
| | | 2018 | 2017 |
| The <i>Technology Act 1970</i> , section 34 | Data storage and security | 3 251 | 4 558 |
| The <i>New Technology Act 1998</i> , section 45 | Contributions to hospital research facilities | 4 877 | 6 838 |
| | | 8 128 | 11 396 |

2. FUNDING DELIVERY OF OUR SERVICES

Guidance – Summary of compliance with annual parliamentary and special appropriations

A government department shall disclose separately:

- (a) a summary of the recurrent, capital or other major categories of appropriations, disclosing separately:
 - (i) the original amounts appropriated for the reporting period; and
 - (ii) the total amounts appropriated for the reporting period;
- (b) amounts authorised other than by way of appropriation and advanced separately by the Treasurer, other minister or other legislative authority for the reporting period;
- (c) the expenditures for the reporting period in respect of each of the items disclosed in (a) and (b) above;
- (d) the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures for the reporting period;
- (e) the reasons for any transfers greater than \$10 million between capital and operating expenditure, pursuant to section 30 of the *Financial Management Act 1994*; [based on the recommendation 5, PAEC Report on the 2013-14 and 2014-15 Financial and Performance Outcomes] and
- (f) the nature and probable financial effect of any non-compliance by the government department with externally imposed requirements for the reporting period, not already disclosed by virtue of (d) above, and that are relevant to assessments of the government department's performance, financial position or financing and investing activities. [AASB 1004.64(c)]

In satisfying the disclosure requirements of AASB 1004.65, reference should be made to Appendix 1 of FRD 13 *Disclosure of Parliamentary Appropriations* for the format to be followed in disclosing annual and special appropriations.

2.4 Income from transactions

2.4.1 Interest income

| | (\$ thousand) | |
|------------------|---|--------------|
| Source reference | 2018 | 2017 |
| | Interest from financial assets not at fair value through profit and loss | |
| | 888 | 839 |
| | 242 | 235 |
| | 1 045 | 561 |
| AASB 7.20(b) | 2 175 | 1 635 |
| | Interest from financial assets at fair value through profit and loss | |
| | 1 689 | 1 262 |
| | 1 689 | 1 262 |
| AASB 118.35(b) | 3 864 | 2 897 |

Interest income includes interest received on bank term deposits and other investments and the unwinding over time of the discount on financial assets. Interest income is recognised using the effective interest method, which allocates the interest over the relevant period. [AASB 118.30(a)]

Net realised and unrealised gains and losses on the revaluation of investments do not form part of income from transactions, but are reported either as part of income from other economic flows in the net result or as unrealised gains or losses taken directly to equity, forming part of the total change in net worth in the comprehensive result.

2.4.2 Sale of goods and services

(\$ thousand)

| Source reference | | 2018 | 2017 |
|-------------------|---|--------------|--------------|
| AASB 118.35(b)(i) | Sale of goods | 1 114 | 945 |
| | Sale of biological assets | 215 | .. |
| AASB 118.35(b)(i) | Rendering of services | 510 | 401 |
| | Total sale of goods and services | 1 839 | 1 346 |

Income from the **sale of goods** is recognised when:

- the Department no longer has any of the significant risks and rewards of ownership of the goods transferred to the buyer;
- the Department no longer has continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of income, and the costs incurred or to be incurred in respect of the transactions, can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the Department. [AASB 118.14.20]

Regulatory fees are recognised at the time of billing.

Income from the **supply of services** is recognised by reference to the stage of completion of the services being performed. The income is recognised when:

- the amount of the income, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the Department.

Under this method, income is recognised by reference to labour hours supplied or to labour hours supplied as a percentage of total services to be performed in each annual reporting period.

2.4.3 Grants

(\$ thousand)

| Source reference | | 2018 | 2017 |
|------------------|--|------------|------------|
| AASB 1004.60 | General purpose | 125 | 121 |
| AASB 1004.60 | Specific purpose grants for on-passing | 128 | .. |
| AASB 1004.60 | Other specific purpose | 53 | 19 |
| | Total grants | 306 | 140 |

Grant income arises from transactions in which a party provides goods or assets (or extinguishes a liability) to the Department without receiving approximately equal value in return. While grants may result in the provision of some goods or services to the transferring party, they do not provide a claim to receive benefits directly of approximately equal value (and are termed 'non-reciprocal' transfers). Receipt and sacrifice of approximately equal value may occur, but only by coincidence.

Some grants are **reciprocal** in nature (i.e. equal value is given back by the recipient of the grant to the provider). The Department recognises income when it has satisfied its performance obligations under the terms of the grant. [AASB 1004]

For non-reciprocal grants, the Department recognises revenue when the grant is received.

Grants can be received as **general purpose grants**, which refers to grants which are not subject to conditions regarding their use. Alternatively, they may be received as **specific purpose grants**, which are paid for a particular purpose and/or have conditions attached regarding their use.

Grants for on passing are grants paid to one institutional sector (e.g. a state based general government entity) to be passed on to another institutional sector (e.g. local government or a private non-profit institution).

2. FUNDING DELIVERY OF OUR SERVICES

2.4.4 Fair value of assets and services received free of charge or for nominal consideration

(\$ thousand)

| Source reference | | 2018 | 2017 |
|------------------|---|--------------|--------------|
| | Assets | | |
| | Cash donations and gifts | 1 023 | 790 |
| | Plant and equipment | 33 | 16 |
| | Land at fair value | 348 | 525 |
| | Buildings at fair value | .. | 325 |
| | Road, infrastructure and earthworks at fair value | 109 | .. |
| | Other | 76 | 52 |
| | Services | .. | .. |
| AASB 1004.62 | Total fair value of assets and services received free of charge or for nominal consideration | 1 589 | 1 708 |

Contributions of resources provided free of charge or for nominal consideration are recognised at their fair value when the recipient obtains control over the resources, irrespective of whether restrictions or conditions are imposed over the use of the contributions. The exception to this would be when the resource is received from another government department (or agency) as a consequence of a restructuring of administrative arrangements, in which case such a transfer will be recognised at its carrying value in the transferring department or agency. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not donated. [AASB 1004.11,20,44]

2.4.5 Other income

(\$ thousand)

| Source reference | | 2018 | 2017 |
|-------------------|--|--------------|--------------|
| AASB 140.75(f)(i) | Rental income – Investment properties ^(a) | 2 215 | 1 440 |
| AASB 118.35(b)(v) | Dividends received from investments | 1 698 | 1 611 |
| AASB 1004.18(b) | Bad debts reversal | 30 | 15 |
| | Royalties | .. | .. |
| | Forgiveness of liabilities | 2 270 | 2 025 |
| | Total other income | 6 213 | 5 091 |

Note:

(a) investment properties are reported in Note 5.2.

Dividend income is recognised when the right to receive payment is established. Dividends represent the income arising from the Department's investments in financial assets. The Department does not recognise dividends received or receivable from its associates and joint ventures as income. Instead, dividends from associates and joint ventures are adjusted directly against the carrying amount of the investments using the equity method. [AASB 118.30(c)]

Rental income from leasing of investment properties and from operating leases are recognised on a straight line basis over the lease term. [AASB 117.50]

Operating leases relate to the investment property owned by the Department with lease terms between five and 10 years, with an option to extend for a further 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. [AASB 117.56(c)]

(\$ thousand)

| Source reference | | 2018 | 2017 |
|------------------|---|-----------|-----------|
| AASB 117.56(a) | Non-cancellable operating lease receivables | | |
| | Not longer than one year | 18 | 18 |
| | Longer than one year but not longer than five years | 32 | 47 |
| | Longer than five years | 22 | 25 |
| | Total | 72 | 90 |

Forgiveness of liabilities are recognised as income and recorded at the carrying amount. [AASB 1004.16]

During the year, there was a forgiveness of a loan of \$2 270 as a result of [include the reasons for the forgiveness of liabilities].

Guidance – Income from transactions

Accounting for income has to comply with AASB 118 *Revenue* and AASB 1004 *Contributions*, except for income that arises from sources covered by other standards (e.g. lease income – AASB 117, dividends from equity accounted investments – AASB 128, etc.).

Disclosure requirements under AASB 1049: To align with whole of government reporting, Departments are required to classify items of income between ‘transactions’ and ‘other economic flows’ as appropriate (refer to the guidance provided on the Comprehensive Operating Statement). Common material items are disclosed in the Note 2.1 above and may include the following:

- (a) the amount of each significant category of income recognised including income arising from:
 - (i) the sale of goods;
 - (ii) the rendering of services;
 - (iii) interest;
 - (iv) royalties; and
 - (v) dividends. [AASB 118.35]
- (b) the amount of income arising from exchanges of goods or services included in each significant category of income;
- (c) total interest income for financial assets that are not at fair value through profit or loss; [AASB 7.20(b)]
- (d) fee income arising from:
 - (i) financial assets that are not at fair value through profit or loss;
 - (ii) trust and other fiduciary activities that result in the holding of assets on behalf of others; and [AASB 7.20(c)]
- (e) interest income accrued on impaired financial assets. [AASB 7.20(d)]

Additional disclosures for income from contributions

- (a) the nature and amount of contributions recognised as income during the period that were provided specifically for the provision of goods or services over a future period; [AASB 1004.60(b),(d)]
- (b) the nature and amount of contributions recognised as income during the period that were obtained in respect of a future rating or taxing period identified by the general government sector or whole of government for the purpose of establishing a rate or tax; [AASB 1004.60(c), (d)] and
- (c) contributions received as income in previous reporting periods that were obtained in respect of the current reporting period. [AASB 1004.60(e),(d)]

Departments are encouraged to elaborate on the specific accounting policy treatment of material non-exchange transactions where appropriate.

Income from contributions with conditions attached: Where the contributor has specified the manner in which they are to be expended, and those conditions are undischarged at the end of the reporting period, the Department must disclose details of those contributions and the conditions attached to them. [AASB 1004.60(a)]

Transfer of assets from customers to be used for ongoing access to a supply of goods or services

AASB Interpretation 18 *Transfer of Assets from Customers* provides guidance on the recognition and measurement of:

- (a) property, plant and equipment received from a customer which must be used to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both; and
- (b) cash received from a customer that must only be used to construct or acquire an item of property, plant and equipment, and the entity must then use this property, plant and equipment to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

User charges, fees and fines: Where these exist as controlled items, the Department is required to disclose these items separately. [AASB 118.35(b)]

Additional disclosure for rental income

Lessors are required to provide a general description of their leasing arrangements in addition to meeting the requirements of AASB 7. [AASB 117.56(c)]

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive’s nature or form or the timing of payments. [AASB Interpretation 115.3]

In the event lease incentives are given to the lessee, the aggregate cost of incentives is recognised as a reduction of rental income over the lease term, on a straight line basis unless another systematic basis is more representative of the time pattern over which the economic benefit of the leased asset is diminished. [AASB Interpretation 115.4]

2. FUNDING DELIVERY OF OUR SERVICES

2.5 Annotated income agreements

The Department is permitted under section 29 of the *Financial Management Act 1994* (FMA) to have certain income annotated to the annual appropriation. The income which forms part of a section 29 agreement is recognised by the Department as an administered item and the receipts paid into the consolidated fund. If a section 29 agreement is in place, the relevant appropriation item will be increased by the equivalent amount at the point of income recognition.

The following is a listing of the FMA section 29 annotated income agreements approved by the Treasurer:

| Source reference | (\$ thousand) | |
|---|---------------|---------------|
| | Actual | |
| | 2018 | 2017 |
| User charges, or sales of goods and services | | |
| ScienceData | 598 | 658 |
| Technology Special Zone Registration | 955 | 998 |
| National Technology Development Fund | 250 | 260 |
| Network Congestion Charge | 365 | 399 |
| Asset sales | | |
| Cloud Computer Complex | .. | 2 350 |
| Commonwealth specific purpose payments | | |
| ABC university Tech Lab | 3 002 | 2 580 |
| Technology Incubator | 2 575 | 2 658 |
| National Wifi Network – Readiness Test | 642 | .. |
| Hyperloop Link Contribution | 1 650 | 1 500 |
| Total annotated income agreements | 10 037 | 11 403 |

Guidance – Annotated income agreements

Section 29 Financial Management Act 1994 – Annotated Revenue

The Appropriation Act also provides for the application of section 29 of the FMA, whereby Departments on behalf of their relevant Minister may apply to the Treasurer to retain certain types of revenue/receipts from third parties. [BoF]

Detailed guidance on categories of annotated income and the process of obtaining a section 29 annotated income agreements is included in the Budget Operations Framework. The framework can be found on the DTF website <https://www.dtf.vic.gov.au/planning-budgeting-and-financial-reporting-frameworks/budget-operations-framework>.

3. THE COST OF DELIVERING SERVICES

Introduction

This section provides an account of the expenses incurred by the Department of Technology (the Department) in delivering services and outputs. In Section 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded. Section 4 discloses aggregated information in relation to the income and expenses by output.

Structure

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3.1 Expenses incurred in delivery of services

(\$ thousand)

| Source reference | | Notes | 2018 | 2017 |
|------------------|--|-------|---------------|---------------|
| AASB 101.99 | Employee benefit expenses | 3.1.1 | 13 767 | 10 970 |
| AASB 101.82(b) | Grants and other transfers | 3.2 | 32 883 | 43 040 |
| AASB 101.85 | Capital asset charge | 3.3 | 1 309 | 720 |
| AASB 101.82(b) | Other operating expenses | 3.4 | 15 828 | 8 197 |
| AASB 101.85 | Total expenses incurred in delivery of services | | 63 787 | 62 927 |

Guidance – Expenses presentation

When items included in 'Expenses' are material, their nature and amounts need to be disclosed separately, either in the comprehensive operating statement or in the notes to the financial statements. Expenses can be classified by either 'nature' or 'function' depending on which classification provides more reliable and relevant information. In the illustrative disclosures, the Department classifies its expenses by nature. Expenses are recorded on the face of the comprehensive operating statements and further disaggregated in the notes. [AASB 101.97, 99]

3.1.1 Employee benefits in the comprehensive operating statement

(\$ thousand)

| Source reference | | 2018 | 2017 |
|-----------------------|---|---------------|---------------|
| AASB 119.46, FRD 112D | Defined contribution superannuation expense | 451 | 325 |
| AASB 119.46, FRD 112D | Defined benefit superannuation expense | 235 | 155 |
| AASB 119.142 | Termination benefits | 1 810 | 120 |
| | Salaries and wages, annual leave and long service leave | 11 271 | 10 370 |
| | Total employee expenses | 13 767 | 10 970 |

Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, termination payments and WorkCover premiums. [AASB 119.8]

The amount recognised in the comprehensive operating statement in relation to superannuation is employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period. The Department does not recognise any defined benefit liabilities because it has no legal or constructive obligation to pay future benefits relating to its employees. Instead, the Department of Treasury and Finance (DTF) discloses in its annual financial statements the net defined benefit cost related to the members of these plans as an administered liability (on behalf of the State as the sponsoring employer). [FRD 112D]

Termination benefits are payable when employment is terminated before normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. Termination benefits are recognised when the Department is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. [AASB 119.128, 133 134, 139]

3. THE COST OF DELIVERING SERVICES

3.1.2 Employee benefits in the balance sheet

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave (LSL) for services rendered to the reporting date and recorded as an expense during the period the services are delivered. [AASB 119.11, 153]

(\$ thousand)

| Source reference | | 2018 | 2017 |
|------------------|---|---------------|---------------|
| | Current provisions: | | |
| AASB 119.8 | Annual leave | | |
| | Unconditional and expected to settle within 12 months | 1 716 | 1 438 |
| | Unconditional and expected to settle after 12 months | 636 | 796 |
| AASB 119.8 | Long service leave | | |
| | Unconditional and expected to settle within 12 months | 1 231 | 3 002 |
| | Unconditional and expected to settle after 12 months | 1 908 | 6 318 |
| AAASB 101.78(d) | Provisions for on-costs | | |
| | Unconditional and expected to settle within 12 months | 272 | 555 |
| | Unconditional and expected to settle after 12 months | 377 | 599 |
| AAASB 101.61 | Total current provisions for employee benefits | 6 140 | 12 708 |
| | Non-current provisions: | | |
| | Employee benefits | 3 743 | 3 528 |
| | On-costs | 871 | 837 |
| | Total non-current provisions for employee benefits | 4 614 | 4 365 |
| | Total provisions for employee benefits | 10 754 | 17 073 |

Reconciliation of movement in on-cost provision

(\$ thousand)

| Source reference | | 2018 |
|--------------------|---|--------------|
| AASB 137.84(a) | Opening balance | 1 991 |
| AASB 137.84(b) | Additional provisions recognised | 451 |
| AASB 137.84(b) | Additions due to transfer in | 141 |
| AASB 137.84(b) | Additions due to acquisitions | 118 |
| AASB 137.84(c) | Reductions arising from payments/other sacrifices of future economic benefits | (22) |
| AASB 137.84(d) | Reductions resulting from re-measurement or settlement without cost | (20) |
| AASB 137.60, 84(e) | Unwind of discount and effect of changes in the discount rate | 15 |
| AASB 137.84(c) | Reduction held for sale | (304) |
| AASB 137.84(c) | Reduction transfer out | (847) |
| AASB 137.84(a) | Closing balance | 1 522 |
| AASB 101.61 | Current | 651 |
| AASB 101.61 | Non-current | 871 |

Wages and salaries, annual leave and sick leave: Liabilities for wages and salaries (including non-monetary benefits, annual leave and on-costs) are recognised as part of the employee benefit provision as current liabilities, because the Department does not have an unconditional right to defer settlements of these liabilities. [AASB 101.69 and 119.8]

The liability for salaries and wages are recognised in the balance sheet at remuneration rates which are current at the reporting date. As the Department expects the liabilities to be wholly settled within 12 months of reporting date, they are measured at undiscounted amounts. [AASB 101.69 and 119.8]

The annual leave liability is classified as a current liability and measured at the undiscounted amount expected to be paid, as the Department does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. [AASB 101.69(d)]

No provision has been made for sick leave as all sick leave is non-vesting and it is not considered probable that the average sick leave taken in the future will be greater than the benefits accrued in the future. As sick leave is non-vesting, an expense is recognised in the Statement of Comprehensive Income as it is taken.

Employment on-costs such as payroll tax, workers compensation and superannuation are not employee benefits. They are disclosed separately as a component of the provision for employee benefits when the employment to which they relate has occurred. [AASB 101.78]

Unconditional LSL is disclosed as a current liability; even where the Department does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months. [AASB 101.69(d)]

The components of this current LSL liability are measured at:

- undiscounted value – if the Department expects to wholly settle within 12 months; or
- present value – if the Department does not expect to wholly settle within 12 months.

Conditional LSL is disclosed as a non-current liability. There is a conditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL is measured at present value.

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as an 'other economic flow' in the net result. [AASB 119.28]

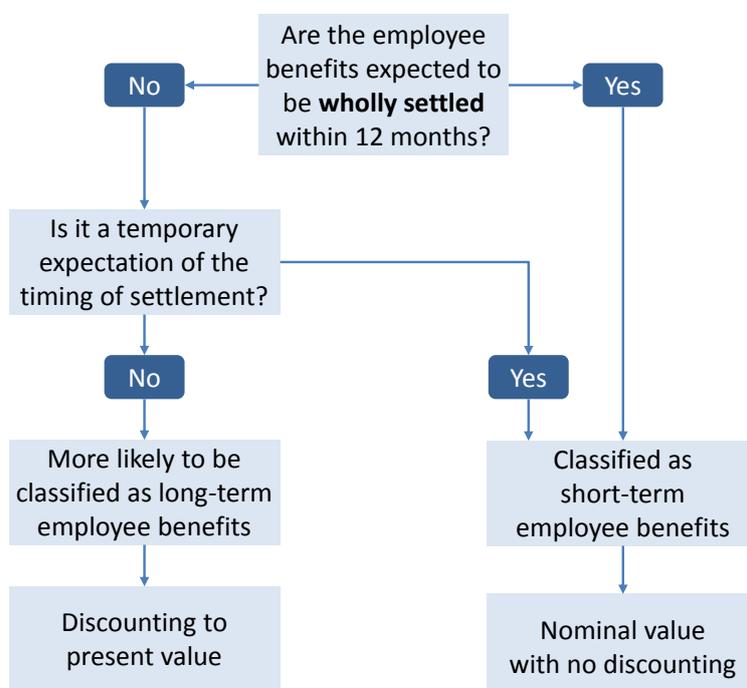
Guidance – Employee benefits

Entities classifying expenses by function shall disclose additional information on the nature of expenses, including employee benefits expense. [AASB 101.104]

Distinction between short-term and long-term employee benefits: Employee benefits are classified as short-term when they are expected to be settled wholly within 12 months after the employees render the related services. [AASB 119.8]

Government departments should review their current short-term employee benefits to ensure their classification remains appropriate.

Measurement of short-term and long-term employee benefits: Short-term employee benefits are accounted for on an undiscounted basis in the period in which the related service is rendered. For employee benefits that are classified as long-term, the obligations are measured at present value (discounted basis). The decision tree below highlights the process considering the 'short-term/long-term' classification and measurement. It is generally expected that the accrued annual leave will be wholly settled before the end of the next annual reporting period, the provisions will need to be measured at present values (on a discounted basis).



Unit of account

The definition of short-term employee benefits introduces the notion of 'wholly'. The expectation of the timing of settlement is based on the entity level, not at the individual employee level.

It is unnecessary for departments to obtain detailed information of each employee's anticipated timing for their leave settlement. This *Model Report* assumes the annual leave accrued by the Department of Technology as at 30 June 2018 is not expected to be settled wholly within 12 months thereafter. Accordingly, the provision for annual leave is classified as long-term for measurement purposes, and is discounted to its present value.

Entities should form their own reasonable expectations of the timing of employee benefit settlement as long as it is not temporary in their own context. Where employee benefits are expected to be settled wholly within 12 months, they should be classified as 'short-term employee benefits' and measured at nominal values without discounting.

The Model Report assumes the discounting method is done on an annual basis, and entities are encouraged to adopt similar assumptions to ensure the consistency of departmental reports. Please refer to Appendix 5 for further guidance on estimating annual leave provisions under AASB 119.

3. THE COST OF DELIVERING SERVICES

Guidance – Employee benefits (continued)

Current/non-current classification of employee benefits: All annual leave and unconditional vested LSL are disclosed as a current liabilities. [AASB 101.69(d)]

Conditional LSL (less than seven years of continuous service) is disclosed as a non-current liability and measured at present value.

In measuring employee benefits, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using a single weighted average discount rate based on market yields of national government bonds in Australia that reflects the estimated timing and amount of benefit payment.

3.1.3 Superannuation contributions

Employees of the Department are entitled to receive superannuation benefits and the Department contributes to both defined benefit and defined contribution plans. The defined benefit plan(s) provides benefits based on years of service and final average salary.

(\$ thousand)

| Source reference | Paid contribution for the year | | Contribution outstanding at year end | | |
|------------------|---|------------|--------------------------------------|------------|-----------|
| | 2018 | 2017 | 2018 | 2017 | |
| | Defined benefit plans ^(a) | | | | |
| | State Superannuation Fund | 271 | 195 | 45 | 33 |
| | Other | 113 | 81 | 23 | 16 |
| AASB 119.53 | Defined contribution plans | | | | |
| | VicSuper | 141 | 93 | 24 | 16 |
| | Other | 59 | 39 | 12 | 8 |
| | Total | 583 | 408 | 103 | 72 |

Note:

(a) The basis for determining the level of contributions is determined by the various actuaries of the defined benefit superannuation plans.

Guidance – Superannuation

Superannuation expenses are reported differently depending on whether employees are members of defined benefit or defined contribution plans. For defined contribution (accumulation) superannuation plans, expenses are the employer contributions paid or payable in respect of employees who are members of the plans during the reporting period.

Employer superannuation expenses in relation to employees who are members of defined benefit superannuation plans are disclosed as an expense. FRD 112D requires certain entities, such as the Director of Housing and Victorian Universities, to recognise defined benefit liabilities or surpluses of defined benefit plans (listed in Appendix A of FRD 112D) in accordance with the requirements of AASB 119. All other entities are exempt from the recognition of the defined benefit liability or surplus of the plans. Instead, the entities account for contributions to these plans as if they were defined contribution plans under AASB 119.

Where an entity has employees who are members of defined benefit plans not listed in Appendix A of FRD 112D, it must recognise any associated defined benefit liability or surplus in accordance with requirements for defined benefit plans under AASB 119.

Multi-employer plans: Defined contribution plans (other than state plans) or defined benefit plans that:

- pool the assets of contributed entities that are not under common control; and
- use those assets to provide benefits to employees of more than one entity (without regard to the identity of the entity that employs the employees concerned). [AASB 119.7, 31, 33 34]

Multi-employer plans are distinct from group administration plans and plans that share risks between various entities under common control.

Guidance – Superannuation (continued)

Insufficient information: When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall account for the plan as though it were a defined contribution plan and disclose as such:

- (a) the fact that the plan is a defined benefit plan;
- (b) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and
- (c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions:
 - (i) any available information about that surplus or deficit;
 - (ii) the basis used to determine that surplus or deficit; and
 - (iii) the implications, if any, for the entity. [AASB 119.30]

3.2 Grant expenses

(\$ thousand)

| | 2018 | 2017 |
|--|---------------|---------------|
| General purpose grants | 19 052 | 41 445 |
| Specific purpose grants for on-passing | 11 688 | - |
| Payments for specific purposes | 2 144 | 1 595 |
| Total grant expenses | 32 883 | 43 040 |

Grant expenses are contributions of the Department's resources to another party for specific or general purposes where there is no expectation that the amount will be repaid in equal value (either by money, goods or services).

Grants can either be operating or capital in nature. Grants can be paid as general purpose grants, which refer to grants that are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants which are paid for a particular purpose and/or have conditions attached regarding their use.

Grant expenses are recognised in the reporting period in which they are paid or payable. Grants can take the form of money, assets, goods, services or forgiveness of liabilities. [AASB Framework paragraph 83]

3.3 Capital asset charge

(\$ thousand)

| Source reference | 2018 | 2017 |
|---|-------|------|
| AASB 101.85, BOF 4.3 Capital asset charge | 1 309 | 720 |

A **capital asset charge** is a charge levied on the written down value of controlled non-current physical assets in a department's balance sheet. It aims to attribute to the Department outputs, a cost of capital used in service delivery. Imposing this charge provides incentives for the Department to identify and dispose of underutilised or surplus non-current physical assets.

3. THE COST OF DELIVERING SERVICES

3.4 Other operating expenses

(\$ thousand)

| Source reference | | 2018 | 2017 |
|---------------------------|---|---------------|--------------|
| AASB 101.97 | Supplies and services | | |
| | Purchase of inventories | 2 005 | 1 334 |
| | Purchase of services (including remuneration of auditors) | 3 635 | 2 151 |
| | Maintenance ^(a) | 223 | 94 |
| | Other borrowing cost (other than interest) | 307 | 144 |
| | Fair value assets and services provided free of charge or for nominal consideration | | |
| | Cash donations and gifts | 303 | 214 |
| | Land at fair value | 142 | 123 |
| | Plant and equipment at cost | 110 | 15 |
| | Cultural assets at fair value | 154 | - |
| | Other assets | 57 | 194 |
| AASB 140.75(f)(ii), (iii) | Direct operating expenses of investment properties generating rental income | 421 | 409 |
| | Operating lease rental expenses | | |
| | Lease payments | 3 295 | 1 098 |
| AASB 117.35(c) | Subleases | 422 | - |
| | Bad debts from transactions | 75 | 50 |
| AASB 102.36(d) | Cost of goods sold/distributed | 1 463 | 1 077 |
| | Cost of biological assets sold – commercial | 1 290 | - |
| | Cost of biological assets sold – livestock | 250 | - |
| AASB 101.98(f) | Settlement of litigation | 869 | 783 |
| AASB 138.126 | Research and development costs immediately expensed | 651 | 495 |
| FRD 11A.3 | Exgratia expense | 156 | 16 |
| | Total other operating expenses | 15 828 | 8 197 |

Note:

(a) Of the balance in 'other operating expenses – maintenance', \$XXX [\$xxx in 2017] related to operating and maintenance expenses of assets contracted under the public private partnership arrangements [insert if relevant]. [PAEC Report 115, Recommendation 13]

Other operating expenses generally represent the day-to-day running costs incurred in normal operations. It also includes bad debts expense from transactions that are mutually agreed.

Supplies and services are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when the inventories are distributed.

Operating lease payments (including contingent rentals) are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. [AASB 117.33]

Research activities: Expenditure on research activities is recognised as an expense in the period in which it is incurred. [AASB 138.54]

Cost of sales: When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related income is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write down or loss occurs.

The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. [AASB 102.34]

Guidance – Other operating expenses

Public Accounts and Estimates Committee (PAEC) Report 102, recommendation 70 requested more detailed disclosure of other operating expenses. The illustrative disclosures include the more common items required to be disclosed by other AAS.

Guidance – Other operating expenses (continued)

When inventories held for distribution by a not-for-profit entity are distributed, the carrying amount of those inventories shall be recognised as an expense. The amount of any write down of inventories for loss of service potential and all losses of inventories shall be recognised as 'other economic flow' in the period the write down or loss occurs. The amount of any reversal of any write down of inventories arising from a reversal of the circumstances that gave rise to the loss of service potential shall be recognised as a reduction in the amount of inventories recognised as an other economic flow in the period in which the reversal occurs. [AASB 102.Aus 34.1]

The loss of service potential for inventories held for distribution by not-for-profit entities may sometimes be identified through a fall in replacement cost of the inventories, but this is not necessarily always the case, and more relevant bases can be used to identify loss of service potential. For example, obsolescence, which may occur with or without there being a fall in current replacement cost. Obsolescence covers both technical and/or functional obsolescence. It is strongly encouraged that entities use their judgement in determining the most appropriate basis (bases) in assessing any loss in service potential for inventories held for distribution.

Entities should refer to the AASB 102 *Inventories* paragraphs BC12 and BC20 for detailed guidance on assessing loss of service potential.

4. DISAGGREGATED FINANCIAL INFORMATION BY OUTPUT

Introduction

The Department of Technology (the Department) is predominantly funded by accrual based parliamentary appropriations for the provision of outputs. This section provides a description of the departmental outputs delivered during the year ended 30 June 2018 along with the objectives of those outputs. [AASB 1052.15]

This section disaggregates revenue and income that enables the delivery of services (described in Section 2) by output and records the allocation of expenses incurred (described in Section 3) also by output, which form part of controlled balances of the Department.

It also provides information on items administered in connection with these outputs.

Structure

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| 4.2 | Administered items..... | 115 |
| 4.3 | Restructuring of administrative arrangements... | 119 |

Judgement required

Judgement is required in allocating income and expenditure to specific outputs. [Include judgements made in making allocation.] For the period under review there were no amounts unallocated.

Distinction between controlled and administered items

The distinction between controlled and administered items is drawn based on whether the Department has the ability to deploy the resources in question for its own benefit (controlled items) or whether it does so on behalf of the State (administered). The Department remains accountable for transactions involving administered items, but it does not recognise these items in its financial statements.

4.1 Departmental outputs – descriptions and objectives

Strategic policy advice

Description of output: Provision of policy advice to the Government on the development, promotion, and support of information and biological technology in the public and private sectors.

Objectives: Improved economic performance of the State through the application of leading edge technology and to promote leadership in scientific research and innovation.

Contribution to [\[Sustainability Thriving Victoria\]](#) Government outcomes include:

- quality jobs and thriving innovative industries; and
- growing and linking all of Victoria.

Information technology and telecommunication

Description of output: Provision of payroll, accounting and database management service and training to a range of agencies. The Information Technology and Telecommunications (IT&T) division provides services on the application and use of IT&T to other governments on a fee for service basis.

Objectives: Efficient and economical operation of government activities to ensure optimal use of resources. Leadership in IT&T promotes Victoria as a centre for excellence in the application of new IT.

Contribution to [\[Sustainability Thriving Victoria\]](#) Government outcomes include:

- quality jobs and thriving innovative industries; and
- sound financial management.

Research and development of biological technology

Description of output: Research and development of new biological technology for application in the agricultural and health sectors amongst others. Commercial development of this new technology is primarily undertaken by Gene Sciences Victoria, a business unit of the Department.

Objectives: Improving the quality of life of Victorians through eradicating diseases and enhancing nutrition through higher quality agricultural products. Improved agricultural products are also considered to contribute to the economic growth of the State. Contribution to [\[Sustainability Thriving Victoria\]](#) Government outcomes include:

- protecting the environment for future generations; and
- quality jobs and thriving innovative industries.

Departmental outputs – Controlled income and expenses for the year ended 30 June 2018 [AASB 1052.15(c), 15(d)]

(\$ thousand)

| | Strategic policy advice ^(a) | | IT&T services ^(a) | | New technology administration ^{(a)(b)} | | R&D biological technology ^{(a)(c)} | | Departmental total | |
|--|--|-----------------|------------------------------|----------------|---|-----------------|---|-----------|--------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Income from transactions | | | | | | | | | | |
| Output appropriations | 36 042 | 30 000 | 9 500 | 7 000 | 13 167 | 26 682 | 26 826 | .. | 85 535 | 63 682 |
| Special appropriations | 1 980 | 3 587 | 5 384 | 3 020 | 760 | 4 789 | 4 | .. | 8 128 | 11 396 |
| Interest | 1 154 | 1 120 | 1 071 | 816 | 970 | 961 | 669 | .. | 3 864 | 2 897 |
| Sale of goods and services | 702 | 555 | 756 | 703 | 204 | 88 | 177 | .. | 1 839 | 1 346 |
| Grants | 48 | 50 | .. | .. | 85 | 90 | 173 | .. | 306 | 140 |
| Fair value of assets and services received free of charge or for nominal consideration | 849 | 696 | 34 | 109 | 180 | 903 | 526 | .. | 1 589 | 1 708 |
| Other income | 4 333 | 4 159 | 950 | 775 | 255 | 157 | 675 | .. | 6 213 | 5 091 |
| Subtotal | 45 108 | 40 167 | 17 695 | 12 423 | 15 621 | 33 670 | 29 050 | .. | 107 474 | 86 260 |
| Expenses from transactions | | | | | | | | | | |
| Employee expenses | (3 883) | (5 258) | (2 586) | (3 388) | (2 729) | (2 324) | (4 569) | .. | (13 767) | (10 970) |
| Depreciation | (4 725) | (4 615) | (1 807) | (3 530) | (4 276) | (4 013) | (4 290) | .. | (15 099) | (12 157) |
| Interest expense | (259) | (275) | (179) | (232) | (1 860) | (1 829) | (68) | .. | (2 366) | (2 336) |
| Grant expenses | (19 525) | (25 217) | .. | .. | (822) | (17 823) | (12 536) | .. | (32 883) | (43 040) |
| Capital asset charge | (403) | (350) | (403) | (237) | (219) | (133) | (284) | .. | (1 309) | (720) |
| Other operating expenses | (3 990) | (3 887) | (1 328) | (1 112) | (3 525) | (3 198) | (6 985) | .. | (15 828) | (8 197) |
| Subtotal | (32 785) | (39 602) | (6 303) | (8 499) | (13 431) | (29 320) | (28 732) | .. | (81 252) | (77 420) |
| Net result from transactions (net operating balance) | 12 322 | 565 | 11 392 | 3 924 | 2 190 | 4 350 | 318 | .. | 26 223 | 8 839 |
| Other economic flows included in net result | | | | | | | | | | |
| Net gain/(loss) on non-financial assets | (5 898) | 1 547 | 80 | 297 | (334) | (39) | 991 | .. | (5 161) | 1 805 |
| Net gain/(loss) on financial instruments | (2 099) | (140) | (162) | (241) | (2 830) | (3 590) | (800) | .. | (5 891) | (3 971) |
| Share of net profits/(losses) of associates and joint entities, excluding dividends | 1 055 | 652 | .. | .. | 231 | 745 | .. | .. | 1 286 | 1 397 |
| Other gains/(losses) from other economic flows | (681) | (956) | (459) | (696) | (516) | (395) | (1 240) | .. | (2 895) | (2 047) |
| Net result from continuing operations | 4 700 | 1 668 | 10 851 | 3 285 | (1 259) | 1 070 | (731) | .. | 13 562 | 6 023 |
| Net result from discontinued operations | (317) | 1 326 | 1 545 | 2 530 | .. | .. | .. | .. | 1 229 | 3 856 |
| Other economic flows – other comprehensive income | | | | | | | | | | |
| Changes in physical asset revaluation surplus | 3 238 | (484) | 2 596 | 1 588 | (385) | 1 721 | 1 954 | .. | 7 403 | 2 825 |
| Transfer from physical asset revaluation surplus to accumulated surplus | 156 | 14 | 37 | 244 | 34 | 22 | 33 | .. | 260 | 280 |
| Changes to financial assets available-for-sale revaluation surplus | (1 250) | 996 | .. | .. | .. | .. | .. | .. | (1 250) | 996 |
| Comprehensive result | 6 527 | 3 520 | 15 030 | 7 647 | (1 610) | 2 813 | 1 256 | .. | 21 203 | 13 980 |

Notes:

- (a) Information about the objectives of these departmental outputs is located in the report of operations under the 'Operational and budgetary objectives and performance against objectives' section.
- (b) Based on the Administrative Arrangements Order [No. xxx] 2017, figures for the current financial year for the new technology administration output reflect the period from 1 July 2017 to 31 August 2017, figures for the comparative year are not adjusted. Figures for the period from 1 September 2017 to 30 June 2018 are reported by the Department of Cabinet Administration.
- (c) Based on the Administrative Arrangements Order [No. xxx] 2017, figures for the current financial year for the R&D biological technology output reflect the period from 1 September 2017 to 30 June 2018. Figures for the period from 1 July 2017 to 31 August 2017, and figures for the comparative year, are reported by the Department of Natural Resources.

Departmental outputs – Controlled assets and liabilities at 30 June 2018 [AASB 1052.16]

(\$ thousand)

| | Strategic policy advice | | IT&T services | | New technology administration ^(a) | | R&D biological technology ^(b) | | Departmental total | |
|--------------------------|----------------------------|----------------|------------------|---------------|---|---------------|---|-----------|-----------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Assets | | | | | | | | | | |
| Financial assets | 77 617 | 58 442 | 31 365 | 17 505 | .. | 27 845 | 14 326 | .. | 123 308 | 103 792 |
| Non-financial assets | 40 363 | 60 342 | 19 739 | 19 989 | .. | 43 664 | 55 623 | .. | 115 726 | 123 995 |
| Total assets | 117 980 | 118 784 | 51 104 | 37 493 | .. | 71 509 | 69 950 | .. | 239 034 | 227 787 |
| Liabilities | 37 035 | 43 409 | 17 540 | 17 211 | .. | 52 206 | 43 027 | .. | 97 601 | 112 826 |
| Total liabilities | 37 035 | 43 409 | 17 540 | 17 211 | .. | 52 206 | 43 027 | .. | 97 601 | 112 826 |
| Net assets | 80 946 | 75 375 | 33 564 | 20 283 | .. | 19 303 | 26 923 | .. | 141 432 | 114 961 |

Notes:

- (a) Based on the Administrative Arrangements Order [No. xxx] 2017, figures for the assets and liabilities for the new technology administration output for the comparative year are not adjusted. Figures for the assets and liabilities of the output for the current year are reported by the Department of Cabinet Administration.
- (b) Based on the Administrative Arrangements Order [No. xxx] 2017, figures for the assets and liabilities for the R&D biological technology output for the current financial year are as at 30 June 2018. Figures for the assets and liabilities of the output for the comparative year are reported by the Department of Natural Resources.

Changes in outputs

The research and development of biological technology output was transferred from the Department of Natural Resources to the Department as a consequence of machinery of government changes announced on 2 August 2017. However, accounts and reports for this output for the purposes of the *Financial Management Act 1994* (FMA) were kept and provided from 1 September 2017 as per the Administrative Arrangements Order [No. xxx] 2017. Expenses and income attributable to the transferred outputs for the reporting period are disclosed in 4.3 'Restructuring of administrative arrangements'.

At the same time, activities of the Commissioner for Technology, under the new technology administration output, were transferred to the Department of Cabinet Administration. This is in line with the Government's commitment to continuously improve efficiency through centralisation of common administrative functions within Victorian government departments. Accounts and reports for this output for the purposes of the FMA were kept and provided until 31 August 2017 as per the Administrative Arrangements Order [No. xxx] 2017.

4.2 Administered items [\[AASB 1050.7, 1050.24\]](#)

Administered income includes taxes, fees and fines and the proceeds from the sale of administered surplus land and buildings. Administered expenses include payments made on behalf of the State and payments into the consolidated fund. Administered assets include government income earned but yet to be collected. Administered liabilities include government expenses incurred but yet to be paid. Except as otherwise disclosed, administered resources are accounted for on an accrual basis using same accounting policies adopted for recognition of the departmental items in the financial statements. Both controlled and administered items of the Department are consolidated into the financial statements of the State.

The Department does not gain control over assets arising from taxes, fines and regulatory fees, consequently no income is recognised in the Department's financial statements. The Department collects these amounts on behalf of the State. Accordingly, the amounts are disclosed as income in the schedule of Administered Items. [\[AASB 1050.7, 1050.12\]](#)

Administered (non-controlled) items [AASB 1050.7, FRD 9B]

For the financial year ended 30 June 2018

(\$ thousand)

| | Strategic policy advice | | IT&T services | | New technology administration ^(a) | | R&D biological technology ^(b) | | Departmental total | |
|--|----------------------------|---------------|------------------|--------------|---|---------------|---|-----------|-----------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Administered income from transactions | | | | | | | | | | |
| Appropriations – payments made on behalf of the State | 6 786 | 6 245 | 3 550 | 3 487 | 546 | 1 137 | 1 137 | .. | 12 019 | 10 869 |
| Sales of goods and services [include fees] | 5 887 | 5 634 | 3 003 | 2 318 | .. | 3 517 | 2 725 | .. | 11 615 | 11 469 |
| Grants | 871 | 1 790 | 222 | 301 | 2 330 | 2 996 | 162 | .. | 3 585 | 5 087 |
| Taxation income | .. | .. | .. | .. | 5 176 | 4 982 | .. | .. | 5 176 | 4 982 |
| Fines | .. | .. | .. | .. | 6 213 | 5 988 | .. | .. | 6 213 | 5 988 |
| Total administered income from transactions | 13 544 | 13 669 | 6 775 | 6 106 | 14 265 | 18 620 | 4 024 | .. | 38 608 | 38 395 |
| Administered expenses from transactions | | | | | | | | | | |
| Payments made on behalf of the State | (6 786) | (6 245) | (3 550) | (2 987) | (546) | (1 637) | (1 137) | .. | (12 019) | (10 869) |
| Payments into the consolidated fund | (6 758) | (7 424) | (3 225) | (2 619) | (13 719) | (17 483) | (2 887) | .. | (26 589) | (27 526) |
| Total administered net result from transactions (net operating balance) | .. | .. | .. | 500 | .. | (500) | .. | .. | .. | .. |
| Administered other economic flows included in administered net result | | | | | | | | | | |
| Net gain/(loss) on financial instruments | 253 | (156) | .. | .. | .. | .. | .. | .. | 253 | (156) |
| Other gains/(losses) from other economic flows | .. | .. | .. | .. | .. | .. | 225 | 88 | 225 | 88 |
| Administered net result | 253 | (156) | .. | 500 | .. | (500) | 225 | 88 | 478 | (68) |
| Administered other economic flows – other comprehensive income | | | | | | | | | | |
| Items that will not be reclassified to administered net result | | | | | | | | | | |
| Adjustment to accumulated surplus/(deficit) due to change in accounting policy | .. | 153 | .. | 201 | .. | 243 | .. | .. | .. | 597 |
| Changes in physical asset revaluation surplus | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Total administered comprehensive result | 253 | (3) | .. | 701 | .. | (257) | 225 | 88 | 478 | 529 |

Notes:

(a) Based on the Administrative Arrangements Order [No. xxx] 2017, figures for the income and expenses for the new technology administration output for the comparative year are not adjusted. Figures for the income and expenses of the output for the current year are reported by the Department of Cabinet Administration.

(b) Based on the Administrative Arrangements Order [No. xxx] 2017, figures for the income and expenses for the R&D biological technology output for the current financial year are as at 30 June 2018. Figures for the income and expenses of the output for the comparative year are reported by the Department of Natural Resources.

Administered (non-controlled) items (continued) [AASB 1050.7, FRD 9B]

For the financial year ended 30 June 2018

(\$ thousand)

| | Strategic policy advice | | IT&T services | | New technology administration ^(a) | | R&D biological technology ^(b) | | Departmental total | |
|--|----------------------------|--------------|------------------|--------------|---|---------------|---|-----------|-----------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Administered financial assets | | | | | | | | | | |
| Receivables | 443 | 746 | 3 242 | 1 491 | .. | 4 167 | 5 407 | .. | 9 092 | 6 404 |
| Investments and other financial assets | 5 897 | 4 378 | 4 090 | 3 051 | .. | 4 573 | 2 245 | .. | 12 232 | 12 002 |
| Total administered financial assets | 6 340 | 5 124 | 7 332 | 4 542 | .. | 8 740 | 7 652 | .. | 21 324 | 18 406 |
| Administered non-financial assets^(c) | | | | | | | | | | |
| Inventories | .. | .. | 243 | .. | .. | 1 894 | 1 109 | .. | 1 352 | 1 894 |
| Prepayments | 578 | 872 | 326 | 537 | .. | 901 | 783 | .. | 1 687 | 2 310 |
| Total administered non-financial assets | 578 | 872 | 569 | 537 | .. | 2 795 | 1 892 | .. | 3 039 | 4 204 |
| Total administered assets | 6 918 | 5 996 | 7 901 | 5 079 | .. | 11 535 | 9 544 | .. | 24 363 | 22 610 |
| Administered liabilities^(d) | | | | | | | | | | |
| Payables | 1 364 | 1 093 | 921 | 849 | .. | 2 277 | 2 107 | .. | 4 392 | 4 219 |
| Borrowings | 2 015 | 2 227 | 543 | 764 | .. | 272 | 221 | .. | 2 779 | 3 263 |
| Total administered liabilities | 3 379 | 3 320 | 1 464 | 1 613 | .. | 2 549 | 2 328 | .. | 7 171 | 7 482 |
| Total administered net assets | 3 539 | 2 676 | 6 437 | 3 466 | .. | 8 986 | 7 216 | .. | 17 192 | 15 128 |

Notes:

- (a) As a result of the administrative restructure, the administered assets and liabilities for the new technology administration output are now reported by the Department of Cabinet Administration. Accordingly, the administered income and expenses for the current financial year only reflect the Department's period of responsibility, which was 1 July 2017 to 31 August 2017.
- (b) As a result of the administrative restructure, the figures for administered income and expenses for the R&D biological technology only represents activities since 1 September 2017. Administered items for the prior year and the current year to 31 August 2017 are reported by the Department of Natural Resources.
- (c) The State's investment in all its controlled entities is disclosed in the administered note of the Department of Treasury and Finance's (DTF) financial statements. This includes the investment in the Department's portfolio entities.
- (d) Department of Treasury and Finance in its Annual Financial Statements, disclose on behalf of the State as the sponsoring employer, the net defined benefit cost related to the members of these plans as an administered liability. Refer to DTF's Annual Financial Statements for more detailed disclosures in relation to these plans.

4. DISAGGREGATED FINANCIAL INFORMATION BY OUTPUT

Guidance – Departmental outputs

AASB 1052 *Disaggregated Disclosures* requires:

- (a) a summary of the identity and purpose of each of the Department's major activities (outputs) undertaken during the reporting period;
- (b) the objectives of the Department, if not disclosed elsewhere in the annual report; and
- (c) income and expenses attributable to outputs identified in (a) above, showing separately each major class.

To facilitate the assessment of the costs incurred and the cost recoveries generated as a result of the Department's activities, administered income, expenses, assets and liabilities are reported on the same basis adopted for the recognition of the elements of the financial statements. That is, they are accounted for using the accrual basis of accounting and by applying the same accounting policies as those applied to items recognised in the departmental financial statements. [AASB 1050.24]

Allocation of income and expenses to outputs is only required to the extent that such an allocation can be determined reliably. Where amounts cannot be allocated on a reliable basis, they should be disclosed in a separate 'unallocated' column.

In identifying major activities, judgement is required to identify those activities of a Department that warrant separate disclosure in the general purpose financial statements. Exercising this judgement involves a consideration of the following:

- (a) the objectives of the Department;
- (b) the likely users of the general purpose financial statements;
- (c) the activity level that may be relevant to users' assessments of the performance of the Department; and
- (d) the concept of materiality.

Descriptions of output activities and key government objectives for the reporting period should be consistent with those reported in the corresponding budget papers.

Guidance on the classification of items as controlled or administered: Departments are required to classify revenues, expenses, assets and liabilities as either 'controlled' or 'administered'. The way an output is defined can affect the classification of a revenue or expense between the administered or controlled categories. The decision to classify an asset or liability as 'administered' rather than 'controlled' will impact items such as the capital assets charge on the Department's operations, and the way in which the asset or liability is presented in the State Budget. Further guidance on controlled and administered can be found in Financial Reporting Operations Framework and Budget Operations Framework on DTF website (<https://www.dtf.vic.gov.au/financial-management-government/planning-budgeting-and-financial-reporting-frameworks>).

Administered items do not form part of a Department's outputs, and in the case of administered expenses, funding is provided under a separate appropriation. For example:

- If the administrative process of making welfare transfer payments is part of an output of the Department, it should be classified as a controlled expense. However, the actual funds being paid to the beneficiaries could be classified as an administered item if they meet the criteria for administered items. In respect to an Act or binding agreement, an item may be classified as administered if the Department has no influence over eligibility, timing, or the amount, unless contributing to output delivery.
- If a Department defined an output as 'the management of grants to [some external body] for [some purpose]', the actual grants themselves (as opposed to the administrative costs of managing the grants program) could be classified as administered expenditure. However, if the output were defined as 'delivery of products or services for [some purpose]', with the payment being conditional on the fulfilment of specified conditions, it may be seen to involve an exchange of value and therefore should be treated as controlled.
- If crime compensation payments awarded by a court or tribunal or revenues or taxes collected by a Department on behalf of the State would normally be classified as giving rise to administered items. On the other hand, revenues, expenses, assets or liabilities arising in connection with the discharge of the function of making crime compensation payments (as distinct from the payments themselves) or collecting revenues (as distinct from the revenues themselves) on behalf of the State would normally be classified as controlled.

Changes in accounting policies: Where an item moves from controlled to administered, or vice versa, the reclassification may constitute a change of accounting policy.

Where principles in respect of classification have been applied consistently and the reclassification arises from a change in circumstances, the change does not constitute a change in accounting policy.

However, where there is no change in circumstances or facts, a reclassification would constitute a change in accounting policy and would have to be disclosed as such in accordance with AASB 108.

Grants: Where grants are payable into the consolidated fund, they are reported as administered income.

Guidance – Departmental outputs (continued)

Administered income and expense: A Department may be responsible for levying and collecting taxes, fines and fees, the provision of goods and services and transfer payments. These activities may give rise to income and expenses, which the Department does not control. This would occur where, for example, the Department is not permitted to utilise the proceeds from user charges without further authorisation. Income and expenses administered by a Department are not recognised in its comprehensive operating statement but are disclosed in the notes.

AASB 1050 *Administered Items* and FRD 9B *Departmental Disclosure of Administered Assets and Liabilities by Activities* requires administered income and expenses to be disclosed separately by major class and attributed to outputs where such allocation can be determined reliably.

Administered assets and liabilities [AASB 1050.7, FRD 9B]: When undertaking administered activities, a Department may manage and deploy assets in the capacity of an agent and may incur liabilities, which will not involve a sacrifice of assets that are controlled by the Department at the end of the reporting period. Assets and liabilities administered by the Department are not recognised in its balance sheet but are disclosed in the notes.

On behalf of the State, DTF discloses in its administered note of its annual financial statements the State's investment in controlled entities and the superannuation liabilities related to departmental employees. While other departments are not required to show these items in their administered notes, they are advised to include footnotes as illustrated stating that this information is available in the DTF's annual report.

AASB 1050 encourages, but does not require, the allocation of administered assets and liabilities to outputs. However, FRD 9B extends AASB 1050's disclosure requirement for administered income and expenses to include disclosure on a major activity basis for administered assets and liabilities. Assets and liabilities should only be disclosed on a major activity basis when such allocations can be reliably attributable to the outputs.

Identifying an allocation basis [FRD 9B]: Usually, it is the elements of those administered activities that are undertaken by an autonomous unit of the Department, such as a tax collection agency, which are more likely to be separately identifiable.

Where a Department cannot determine an allocation on a reliable basis, it should discuss the matter with its auditor and advise the DTF of the outcome of those discussions before finalisation of the financial statements.

Material administered items: Where administered items are material, departments are required to provide additional disclosure by way of additional notes, for example, taxes, fees and fines, are to be disaggregated further where these items are material.

4.3 Restructuring of administrative arrangements [AASB 1052.15(a), AASB 1004.54-58]

In August 2017, the Government issued an administrative order restructuring some of its activities via machinery of government changes, taking effect from 1 September 2017. As part of the machinery of government restructure, the Department (as transferor) relinquished its New Technology Administration output to the Department of Cabinet Administration (the transferee). The combined income and expenses for the new technology administration output for the reporting period are reported by the Department of Cabinet Administration.

In addition, the Department (as transferee) assumed responsibility for the research and development of biological technology output from the Department of Natural Resources (the transferor). The combined income and expenses for the research and development of biological technology output for the reporting period (including those recognised by the Department of Natural Resources) are as follows:

| | (\$ thousand) | | |
|---|---|--|----------------|
| <i>Research and development of biological technology output</i> | <i>Department of Natural Resources (Jul-Aug 2017)</i> | <i>Department of Technology (Sept 2017-Jun 2018)</i> | <i>Total</i> |
| Controlled income and expenses | | | |
| Income | 4 556 | 19 494 | 24 050 |
| Expenses | (4 375) | (18 722) | (23 098) |
| Administered income and expenses | | | |
| Income | 541 | 2 314 | 2 855 |
| Expenses | (519) | (2 222) | (2 742) |

Comparative amounts for the prior year have not been adjusted.

The net assets assumed by the Department for the research and development of biological technology output as a result of the administrative restructure is recognised in the balance sheet at the carrying amount of those assets in the transferor's (Department of Natural Resources) balance sheet immediately before the transfer.

The net asset transfers were treated as a contribution of capital by the State. No income has been recognised by the Department in respect of the net asset transferred from the Department of Natural Resources.

4. DISAGGREGATED FINANCIAL INFORMATION BY OUTPUT

Restructuring of administrative arrangements [AASB 1052.15(a), AASB 1004.54-58]

(\$ thousand)

| | 2018 | 2018 |
|---|---|--|
| | Transfer in: Output – R&D biological technology | Transfer out: Output – new technology administration |
| Assets | | |
| Cash and deposits | 5 | (3 072) |
| Receivables | 2 767 | (11 926) |
| Investments and other financial assets | 2 401 | (5 266) |
| Investments accounted for using the equity method | .. | (2 471) |
| Inventories | 2 972 | (11 317) |
| Property, plant and equipment | 15 512 | (31 012) |
| Biological assets | 3 080 | .. |
| Investment properties | 1 287 | .. |
| Intangible assets | .. | (3 630) |
| Other non-financial assets | 34 | ... |
| Liabilities | | |
| Borrowings | 4 104 | (31 374) |
| Payables | 2 094 | (5 675) |
| Provisions | 2 075 | (11 149) |
| Other liabilities | 168 | (400) |
| Net assets recognised/(transferred) | 19 616 | (20 097) |
| Net capital contribution from the Crown | | (480) |

Guidance – Restructuring of administrative arrangements

Requirements regarding restructures of administrative arrangements can be found by reference to AASB 1004 *Contributions* and AASB Interpretation 1038 *Contributions by Owners Made to Wholly Owned Public Sector Entities*. In relation to the detailed requirements on the evidence and timing when accounting for restructures of administrative arrangements, please refer to FRD 119A as outlined below.

Evidence and timing of government decisions

Parliamentary appropriations [FRD 119A, App A]

Parliamentary appropriations for additions to net asset base, payments on behalf of the State, and special appropriations for capital expenditure purposes, including those that are directly on passed to another transferee wholly owned and controlled by the State, are deemed by FRD 119A as contributions by owners.

In such cases, the evidence of Government decisions is in the form of an Appropriation Act, or specific sections in other Acts. The timing of Government decision is when the Royal assent or the Warrant is signed.

Restructures of administrative restructures

In the case of restructures of administrative restructures, evidence of Government decisions can include an administrative order, a legislative instrument, or any form of evidence documenting a Government decision in relation to the activities transferred. The decision is made when the Order/Royal assent/evidence is signed, depending on the form of evidence.

Where an administrative order is used to effect the administrative restructure, the transfer is deemed to occur on the date of gazettal or publication unless the order or a subsequent order specifies a separate effective date.

Administrative orders may be issued with different dates specified for:

- departmental name changes;
- ministerial appointments; and
- commencement of keeping accounts and provision of reports for output changes.

For example, in the case of the fictitious Department of Technology (DoT), the transfer was announced and approved on 2 August 2017, however there is a requirement in the Administrative Arrangements Order (No. xxx) 2017 for the Department to keep accounts and to provide reports for the relevant outputs for the purposes of the *Financial Management Act 1994* until 31 August 2017 (see Note 2 Departmental (controlled) outputs). Entities should review carefully the relevant designation date, or if different, the effective date of the administrative order from the Special Victorian Government Gazette. This publication can be accessed at:

www.gazette.vic.gov.au

or can be ordered from:

BlueStar Print
 Phone (03) 8523 4601
 Fax (03) 9600 0478
 Email gazette@bluestargroup.com.au

Guidance – Restructuring of administrative arrangements (continued)**Formal designation for ‘other transfers’**

In cases other than administrative restructures covered by administrative orders or legislative instruments, the relevant portfolio minister must formally designate transfers as contributions by or distributions to owners at or before the time of the transfer. Entities should follow paragraph 6.2 of FRD 119A for the minimum details to be included to meet the designation requirements.

Insufficient contributed capital for distributions to owners (reclassification of equity)

Under FRD 119A, the Chief Finance and Accountable Officers can reclassify equity without further ministerial approval to the extent required to effect the following distributions to owners:

- (a) where the transferor has insufficient contributed capital to transfer an asset or net assets; or
- (b) where a transferee has insufficient contributed capital to cover the receipt of a liability or net liabilities.

In accordance with the guidance in Appendix C of FRD 103G *Non-financial physical assets* [pending], for distributions of non-financial physical assets, entities must first reclassify any related revaluation surplus to the accumulated surplus, irrespective of the sufficiency of contributed capital balance. If the asset revaluation surplus included in equity is unknown, management will need to apply judgement and document the methodology used to determine an appropriate estimation of the related amount.

Subsequent to the reclassification above, where there is insufficient contributed capital for distributions to owners, the entity must reclassify its accumulated surplus to contributed capital to the extent required to effect the distribution.

If there is still insufficient contributed capital after such reclassifications, the balance must be recognised as an expense.

Disclosure requirements in the notes*Income and expenses* [AASB 1004.57]

In relation to a transferred output (activity), income and expenses attributable to that output shall be disclosed by the transferee, including the income and expenses recognised by the transferor.

Assets and liabilities [AASB 1004.58]

For immaterial transfers, the assets and liabilities transferred shall be disclosed on an aggregate basis.

For each material transfer, the assets and liabilities transferred shall be disclosed by class, and the counterparty transferor/transferee shall be identified. In addition, both the transferor and transferee shall disclose the following:

- (a) a brief description of the nature of the output transferred;
- (b) the date of transfer of the output;
- (c) the identity of the Department(s) to whom the output has been transferred/received; and
- (d) the details about any related legislation that was enacted to effect the transfer.

Guidance – Restructuring of Administrative Arrangements (*continued*)

Extract of an administrative order

The following is an administrative order effecting a Machinery of Government change that has resulted in the establishment of a new Department through a Machinery of Government restructure. The administrative order took effect as noted in the Gazette.



Victoria Government Gazette

No. S 460 Wednesday 24 December 2014
By Authority of Victorian Government Printer

Administrative Arrangements Act 1983

ADMINISTRATIVE ARRANGEMENTS ORDER (NO. 219) 2014

The Governor in Council makes the following Order:

Dated 24 December 2014

Responsible Minister:

THE HON DANIEL ANDREWS MP

Premier

YVETTE CARISBROOKE
Clerk of the Executive Council

1. **Title**
This Order is called the Administrative Arrangements Order (No. 219) 2014.
2. **Authorising provision**
This Order is made under section 3 of the **Administrative Arrangements Act 1983**.
3. **Commencement**
 - (1) Subject to subclause (2), this Order takes effect on 4 December 2014.
 - (2) This Order, as it applies to or in respect of an item in Table 2 of the Schedule, takes effect on 1 January 2015.
4. **Definitions**
In this Order –
 - ‘**Body**’ means Minister, Department or officer;
 - ‘**instrument**’ includes contract and agreement;
 - ‘**New Body**’ means a Body specified in Column 3 of an item in Table 1 or Table 2 of the Schedule;
 - ‘**Old Body**’ means a Body specified in Column 1 of an item in Table 1 or Table 2 of the Schedule;
 - ‘**Schedule**’ means the Schedule to this Order;
 - ‘**transaction**’ includes –
 - (a) agreement, bond, contract, deed or other consensual arrangement; and
 - (b) action, appeal, arbitration, prosecution or other legal proceeding; and
 - (c) assignment, charge, lease, mortgage, transfer or other dealing with property; and
 - (d) loan, guarantee, indemnity or other dealing with money; and
 - (e) approval, consent, delegation, direction, licence, order, permit, requirement or other authority; and
 - (f) notice; and
 - (g) any other act, entitlement or liability at law.
5. **Construction of references**
In respect of each item in a Table of the Schedule, a reference to an Old Body –
 - (a) in a provision of an Act specified in Column 2 of an item in Table 1 or Table 2 of the Schedule; or
 - (b) in a statutory instrument or other instrument made under an Act specified in Column 2 of an item in Table 1 or Table 2 of the Schedule; or

SPECIAL

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Introduction

The Department of Technology (the Department) controls infrastructure and other investments that are utilised in fulfilling its objectives and conducting its activities. They represent the resources that have been entrusted to the Department to be utilised for delivery of those outputs.

Significant judgement: Classification of investments as 'key assets'

The Department has made the judgement that investments (including investments in associates and joint ventures) are key assets utilised to support the Department's objectives and outputs.

Fair value measurement

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 8.3 in connection with how those fair values were determined.

Structure

| | | |
|-----|--|-----|
| 5.1 | Total property, plant and equipment..... | 123 |
| 5.2 | Investment properties..... | 128 |
| 5.3 | Biological assets..... | 130 |
| 5.4 | Intangible assets | 132 |
| 5.5 | Investments accounted for using the equity method..... | 135 |
| 5.6 | Investments and other financial assets..... | 141 |
| 5.7 | Acquisition and disposal of entities | 142 |

5.1 Total property, plant and equipment

(\$ thousand)

| Source reference | Gross carrying amount | | Accumulated depreciation | | Net carrying amount | | |
|------------------|---|---------------|--------------------------|----------------|---------------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| AASB 116.73(d) | Land at fair value ^(a) | 4 562 | 3 521 | .. | .. | 4 562 | 3 521 |
| AASB 116.73(d) | Buildings at fair value | 23 189 | 19 447 | .. | (217) | 23 189 | 19 230 |
| AASB 116.73(d) | Plant, equipment and vehicles at fair value | 47 876 | 59 793 | .. | (16 684) | 47 876 | 43 109 |
| AASB 116.73(d) | Assets under construction at cost | 713 | 1 023 | .. | .. | 713 | 1 023 |
| AASB 116.73(d) | Infrastructure at fair value | 6 563 | 5 099 | (4 879) | (168) | 1 684 | 4 931 |
| AASB 116.73(d) | Road, infrastructure and earthworks at fair value | 2 896 | 5 005 | (640) | (12) | 2 256 | 4 993 |
| AASB 116.73(d) | Cultural assets at fair value | 2 764 | .. | .. | .. | 2 764 | .. |
| | Net carrying amount | 88 563 | 93 888 | (5 519) | (17 081) | 83 044 | 76 807 |

Note:

(a) [If any entity has significant land under roads, i.e. significant in value and/or difference in methodology, it should be disclosed separately from land].

Initial recognition: Items of property, plant and equipment, are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition. Assets transferred as part of a machinery of government change are transferred at their carrying amount. [AASB 116.73(a); FRD 103G [pending]]

The cost of constructed non-financial physical assets includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

The cost of a leasehold improvement is capitalised and depreciated over the shorter of the remaining term of the lease or their estimated useful lives.

The initial cost for non-financial physical assets under a finance lease is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Also noted that certain assets are acquired under finance leases, which may form part of a service concession arrangements (public private partnership).

Subsequent measurement: Property, plant and equipment (PPE) are subsequently measured at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the asset's highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset) and is summarised on the following page by asset category.

Non-specialised land, non-specialised buildings and artworks are valued using the market approach, whereby assets are compared to recent comparable sales or sales of comparable assets that are considered to have nominal value. [AASB 13.93(d)]

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Specialised land and specialised buildings: The market approach is also used for specialised land, although is adjusted for the community service obligation (CSO) to reflect the specialised nature of the land being valued.

The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that the CSO adjustment is also equally applicable to market participants.

For the majority of the Department's specialised buildings, the current replacement cost method is used, adjusting for the associated depreciation.

Heritage assets, infrastructure and road infrastructure and earthworks are valued using the current replacement cost method. This cost generally represents the replacement cost of the building/component after applying depreciation rates on a useful life basis. However, for some heritage and iconic assets, the cost may be the reproduction cost rather than the replacement cost if those assets' service potential could only be replaced by reproducing them with the same materials.

Vehicles are valued using the current replacement cost method. The Department acquires new vehicles and at times disposes of them before the end of their economic life. The process of acquisition, use and disposal in the market is managed by experienced fleet managers in the Department who set relevant depreciation rates during use to reflect the utilisation of the vehicles.

Fair value for **plant and equipment** that are specialised in use (such that it is rarely sold other than as part of a going concern) is determined using the current replacement cost method.

Refer to Note 8.3 for additional information on fair value determination of property, plant and equipment.

5.1.1 Depreciation and amortisation

| Charge for the period | (\$ thousand) | |
|--|---------------|---------------|
| | 2018 | 2017 |
| Buildings ^(a) | 578 | 607 |
| Plant, equipment and vehicles | 12 118 | 9 550 |
| Infrastructure ^(a) | 419 | 240 |
| Road, infrastructure and earthworks | 514 | 207 |
| Intangible produced assets (amortisation) | 1 471 | 1 554 |
| Total depreciation and amortisation | 15 099 | 12 157 |

Note:

(a) Of the amounts included in 'buildings', and 'infrastructure' categories, \$XXX [\$XXX in 2017] and \$XXX [\$XXX in 2017] respectively related to assets contracted under the public private partnership (PPP) arrangements. [Recommendation 13 PAEC Report 115]

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets that have finite useful lives, are depreciated. The exceptions to this rule include items under operating leases, assets held for sale, land and investment properties.

Depreciation is generally calculated on a straight line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life. [AASB 116.73(b)] Typical estimated useful lives for the different asset classes for current and prior years are included in the table below:

| Asset | (years) Useful life |
|---|------------------------|
| Buildings: | 20 to 100 |
| leasehold buildings | 2 to 60 |
| Infrastructure systems: | |
| water infrastructure – storage facilities | 25 to 300 |
| water infrastructure – other | 25 to 100 |
| rail infrastructure | 2 to 50 |
| other infrastructure | 10 to 32 |
| Plant, equipment and vehicles (including leased assets) | 3 to 10 |
| Road and road networks (including bridges) | 60 to 90 |
| Cultural assets (with finite useful lives) | 100 |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate. [The useful lives illustrated in the Model are for illustrative purposes only. Departments should determine the useful lives of assets.]

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

Indefinite life assets: Land, earthworks, land under declared roads, and core cultural assets, which are considered to have an indefinite life, are not depreciated. Depreciation is not recognised in respect of these assets because their service potential has not, in any material sense, been consumed during the reporting period. [AASB 1051.11]

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

5.1.2 Carrying values by 'purpose' groups ^(a) [FRD 103G [pending]]

(\$ thousand)

| | Public administration | | Public safety and environment | | Total | |
|---|-----------------------|---------------|-------------------------------|---------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Nature based classification | | | | | | |
| Land at fair value ^(b) | 2 014 | 1 830 | 2 548 | 1 691 | 4 562 | 3 521 |
| Buildings at fair value | 19 124 | 14 841 | 4 064 | 4 389 | 23 188 | 19 230 |
| Plant, equipment and vehicles at fair value | 26 793 | 24 678 | 21 082 | 18 431 | 47 876 | 43 109 |
| Assets under construction at cost | 667 | 627 | 46 | 397 | 713 | 1 023 |
| Infrastructure at fair value ^(c) | 170 | 2 223 | 1 514 | 2 708 | 1 685 | 4 931 |
| Road, infrastructure and earthworks at fair value | 608 | 2 454 | 1 649 | 2 539 | 2 257 | 4 993 |
| Cultural assets at fair value | 2 764 | .. | .. | .. | 2 764 | .. |
| Net carrying amount | 52 141 | 46 652 | 30 903 | 30 155 | 83 044 | 76 807 |

Notes:

- (a) Property, plant and equipment are classified primarily by the 'purpose' for which the assets are used, according to one of six purpose groups based upon government purpose classifications. All assets in a purpose group are further sub-categorised according to the asset's 'nature' (i.e. buildings, plant etc.), with each sub-category being classified as a separate class of asset for financial reporting purposes.
- (b) [If any entity has significant Crown land holdings, these holdings are to be disclosed separately in the Property, plant and equipment table 'Land at fair value' as 'Crown land – National and State parks at fair value', 'Crown land – other at fair value', and 'Freehold land at fair value'.]
- (c) Of the balance in 'infrastructure at fair value', \$XXX [xxx in 2017] is attributable to assets contracted under PPP arrangements. [PAEC Report 115, Recommendation 12]

5.1.3 Reconciliation of movements in carrying amount of property, plant and equipment

(\$ thousand)

| Source reference | Land at fair value | | Buildings at fair value | | Plant, equipment and vehicles at fair value | | Assets under construction at cost | | Infrastructure at fair value | | Road, infrastructure and earthworks at fair value | | Cultural assets at fair value | | Total | |
|---|--------------------|--------------|-------------------------|---------------|---|---------------|-----------------------------------|-----------|------------------------------|--------------|---|--------------|-------------------------------|-----------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| AASB116.73(d) Opening balance | 3 521 | 3 120 | 19 230 | 17 782 | 43 109 | 57 761 | 1 023 | 489 | 4 931 | 3 364 | 4 993 | 2 499 | .. | .. | 76 807 | 85 015 |
| AASB116.73(e)(ix) Fair value of assets received free of charge or for nominal considerations | 348 | 525 | .. | 325 | 33 | 16 | .. | .. | .. | .. | 109 | .. | .. | .. | 490 | 866 |
| AAASB116.73(e)(ix) Fair value of assets provided free of charge or for nominal considerations | (142) | (123) | .. | .. | (110) | (15) | .. | .. | .. | .. | .. | .. | (154) | .. | (406) | (138) |
| AASB116.73(e)(i) Additions | 1 756 | 767 | 1 292 | 1 827 | 4 798 | 1 081 | 153 | 1 781 | 1 898 | 1 838 | 1 872 | 3 164 | 675 | 540 | (12 445) | (10 998) |
| AASB116.73(e)(ii) Disposals | .. | (863) | .. | (2 866) | (442) | (949) | .. | .. | .. | (378) | .. | (95) | .. | .. | (442) | (5 151) |
| AASB116.73(e)(ix) Transfer in/out of assets under construction | .. | .. | .. | 900 | .. | .. | (107) | (1 247) | 107 | 347 | .. | .. | .. | .. | .. | .. |
| AASB116.73(e)(iv) Revaluation of PPE | 942 | 1 564 | 6 125 | 1 425 | 5 231 | .. | .. | .. | (4 576) | .. | (112) | .. | 293 | .. | 7 903 | 2 989 |
| AASB116.73(e)(ix) Transfer (to)/from investment property | .. | .. | (1 063) | 1 494 | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | (1 063) | 1 494 |
| AASB116.73(e)(iii) Purchased business combination | 125 | .. | 4 197 | .. | 15 946 | .. | .. | .. | 124 | .. | .. | .. | .. | .. | 20 392 | .. |
| AASB116.73(e)(iii) Machinery of government transfer in | 789 | .. | 3 857 | .. | 7 299 | .. | 10 | .. | 1 040 | .. | 568 | .. | 1 950 | .. | 15 513 | .. |
| AASB116.73(e)(ii) Machinery of government transfer out | (2 024) | .. | (9 399) | .. | (13 702) | .. | (343) | .. | (1 100) | .. | (4 445) | .. | .. | .. | (31 013) | .. |
| AASB116.73(e)(vii) Depreciation | .. | .. | (577) | (606) | (12 118) | .. | .. | .. | (419) | (240) | (514) | (207) | .. | .. | (13 628) | (10 603) |
| AASB116.73(e)(ii) Transfer to disposal group held for sale | (753) | (1 469) | (473) | (1 051) | (2 168) | (5 235) | (24) | .. | (321) | .. | (215) | (368) | .. | (540) | (3 954) | (8 663) |
| AASB116.73(d) Closing balance | 4 562 | 3 521 | 23 189 | 19 230 | 47 876 | 43 108 | 713 | .. | 1 686 | 4 932 | 2 257 | 4 993 | 2 764 | .. | 83 044 | 76 807 |

Note:

Fair value assessments have been performed for all classes of assets in this purpose group and the decision was made that movements were not material (less than or equal to 10 per cent) for a full revaluation. The next scheduled full revaluation for this purpose group will be conducted in 2019.

Guidance – Property, plant and equipment

Classes of assets: FRD 103G [pending] requires property, plant and equipment to be classified primarily by the ‘purpose’ for which the assets are used, according to one of six purpose groups based on government purpose classifications. All assets in a purpose group are further sub-categorised according to the asset’s ‘nature’, with each sub-category being classified as a separate class of asset for financial reporting purposes.

The following **purpose groups** have been adopted:

- public administration;
- education;
- community housing;
- health, welfare and community;
- transportation and communications; and
- public safety and environment. [FRD 103G [pending]. App A]

The following ‘nature’ based sub-classes fall in each of the above purpose groups:

- land (freehold land/Crown land – national and state parks/Crown land other);
- buildings;
- plant, equipment, vehicles and infrastructure systems;
- road, road infrastructures and earthworks; and
- cultural assets.

For the purpose of this Model, illustrative disclosure is provided only for ‘public administration’ and ‘public safety and environment’ purpose groups. Departments may refer to FRD 103G [pending] for indications on which purpose groups are relevant to them. Other entities are expected to use their own judgement to determine which purpose groups are appropriate for their property, plant and equipment.

Measurement of non-financial physical assets

FRD 103G [pending] 4.3 requires all non-financial physical assets to be subsequently measured using the revaluation model, except for certain limited circumstances, where prior written approval for certain assets was given by the Minister for Finance to be measured using historical cost. These assets are phasing out or in transition towards the revaluation model.

Future generation of cash flows: For assets held by not-for-profit entities where the future economic benefits of an asset are not primarily dependent on the asset’s ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits, fair value can be determined using the asset’s current replacement cost.

Revaluations of non-financial physical assets: Full revaluations shall be made with sufficient regularity to ensure the carrying amount does not differ materially from its fair value. FRD 103G [pending] determines the revaluation cycle to occur every five years, and the timetable for each department for revaluation of each class of asset is set out in Appendix A of this FRD. For further guidance on fair value using revaluation model, entities can refer to ‘Guidance on fair value of plant, equipment and vehicles under FRD 103G [pending]’ available from:

www.dtf.vic.gov.au/financial-reporting-policy/financial-reporting-directions-and-guidance.

In a financial year where a full revaluation is not required, entities are still required to conduct fair value assessments to assess whether the asset’s carrying value still materially reflects its fair value. Fair value assessments for land and buildings are determined using separate annual indices for land and buildings supplied by Valuer-General Victoria. Further guidance on this can be found in the guidance note of FRD 103G [pending].

Assets acquired within 12 months of the revaluation date are exempt from revaluation unless evidence exists that the asset’s carrying value does not materially reflect its fair value.

Treatment of accumulated depreciation on revaluation: To ensure consistency on a whole of State reporting basis, FRD 103G [pending] requires that when non-financial physical assets are revalued, an entity is to account for the accumulated depreciation at the date of the revaluation by eliminating the accumulated depreciation balance against the gross carrying amount of the asset and increasing the net carrying amount to the revalued amount of the asset (net approach).

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Guidance – Property, plant and equipment (*continued*)

Depreciation: To align with whole of government reporting under AASB 1049, the consumption of physical or intangible produced assets by wear or overtime is classified as a transaction depreciation expense. The consumption of intangible non-produced assets is classified as an amortisation expense in the other economic flows.

The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. [AASB 116.60]

Depreciation rates and methods shall be reviewed at least annually and, where changed, shall be accounted for as a change in accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method. Depreciation recognised in prior financial years shall not be changed, that is, the change in depreciation rate or method shall be accounted for on a prospective basis. [AASB 116.51, 61]

5.2 Investment properties

(\$ thousand)

| Source reference | | 2018 | 2017 |
|------------------|---|--------------|--------------|
| AASB 140.76 | Balance at beginning of financial year | 5 029 | 5 233 |
| AAASB 140.76(a) | Additions from subsequent expenditure | 282 | 1 838 |
| AASB 140.76(b) | Acquisitions/transfers in of businesses | 1 287 | .. |
| AASB 140.76(c) | Disposals and property held for sale | (1 822) | (998) |
| AASB 140.76(d) | Net gain/(loss) from fair value adjustments | (3 485) | 450 |
| AASB 140.76(f) | Transfers to owner occupied | .. | (1 494) |
| AASB 140.76(f) | Transfers to investment property | 1 063 | .. |
| | Balance at end of financial year | 2 354 | 5 029 |

Investment properties represent properties held to earn rentals or for capital appreciation, or both. Investment properties exclude properties held to meet service delivery objectives of the Department. Investment properties are initially recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Department.

Subsequent to initial recognition at cost, investment properties are revalued to fair value with changes in the fair value recognised as other economic flows in the comprehensive operating statement in the period that they arise. Fair values are determined based on a market comparable approach that reflects recent transaction prices for similar properties. These properties are neither depreciated nor tested for impairment.

[AASB 140.20, 140.30, 140.32A, 140.33, 140.75; FRD 107B]

Guidance – Investment properties

Property held to meet service delivery objectives: In respect of not-for-profit entities, property may be held to meet service delivery objectives rather than to earn rent or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under AASB 116. For example:

- (a) property held for strategic purposes; and
- (b) property held to provide a social service, including those which generate cash inflows where the rental income is incidental to the purpose for holding the property. [AASB 140.Aus9.1]

The reason for classifying a property that would otherwise satisfy the definition of investment property as property, plant and equipment must be documented and approved by the entity's responsible body. [FRD 107B]

Responsible body means:

- (a) in relation to an agency with a statutory board or equivalent governing body, that board or governing body; and
- (b) in relation to an agency without a statutory board or governing body, that agency's Accountable Officer. [SD1.6]

Classification: When classification of investment property is difficult, an entity shall disclose the criteria it uses to distinguish investment property from owner occupied property and from property held for sale in the ordinary course of business. [AASB 140.75(c)]

Guidance – Investment properties (continued)

Inability to determine fair value reliably: An entity must measure its investment property (after recognition) using the fair value model unless the entity has received prior written approval from the Minister for Finance to use the cost model. [FRD 107B]

In the exceptional cases where an entity is unable to reliably determine the fair value of an investment property, and accordingly measures that investment property using the cost model, the reconciliation illustrated in this note shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

- (a) a description of the investment property;
- (b) an explanation of why fair value cannot be determined reliably;
- (c) if possible, the range of estimates in which fair value is highly likely to lie; and
- (d) on disposal of investment property not carried at fair value:
 - (i) the fact that the entity has disposed of investment property not carried at fair value;
 - (ii) the carrying amount of that investment property at the time of sale; and
 - (iii) the amount of gain or loss recognised. [AASB 140.78]

Adjustment for recognised assets and liabilities: When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example, to avoid double counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50 of AASB 140, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments. [AASB 140.77]

Disclosure requirements: Entities are required to disclose:

- (a) whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property; [AASB 140.75(b)]
- (b) the amounts recognised in the net result for:
 - (i) rental income from investment property;
 - (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
 - (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period; [AASB 140.75(f)]
- (c) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal; and [AASB 140.75(g)]
- (d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements. [AASB 140.75(h)]

Entities shall disclose reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

- (a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;
- (b) additions resulting from acquisitions through business combinations;
- (c) assets classified as held for sale or included in a disposal group in accordance with AASB 5 and other disposals;
- (d) net gains or losses from fair value adjustments;
- (e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
- (f) transfers to and from inventories and owner occupied property; and
- (g) other changes.

[AASB 140.76]

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

5.3 Biological assets

Biological assets comprise nature forests and livestock. Their quantities and measurement bases are disclosed below.

| Source reference | Biological asset | Measurement basis | Quantities | | Carrying amount (\$ thousand) | |
|--------------------|------------------------------|-------------------|-------------|------|-------------------------------|-----------|
| | | | 2018 | 2017 | 2018 | 2017 |
| AASB 141.41 and 42 | Timber volume | Cubic metres | 5 000 | .. | 2 749 | .. |
| | Breeding livestock | Headcount | 236 | .. | 1 285 | .. |
| | Total carrying amount | | n.a. | | 4 034 | .. |

Biological assets are measured at fair value less costs to sell, with any changes recognised in the comprehensive operating statement – 'other economic flows'. Costs to sell include all costs that would be necessary to sell the assets, including freight and direct selling costs.

The fair value of a biological asset is based on its present location and condition. If an active market exists for a biological asset in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. Where access exists to different markets then the most relevant market is referenced.

In the event market determined prices or values are not available for a biological asset in its present condition, the present value of the expected net cash flows from the asset, discounted at a current market determined rate is utilised to determine fair value.

The fair value less costs to sell of timber harvested during the period was \$1.56 million.

As at 30 June 2018, the Department had commitments for the acquisition of breeding livestock amounting to \$150 000 (2017: \$nil).

The Department is exposed to financial risks in respect of its biological activities, in particular, potential insufficient working capital for commercial native forests activities. The primary financial risk occurs due to the length of time between expending cash on the purchase, planting and maintenance of trees and on felling the adult trees and ultimately receiving the cash from the eventual sale to third parties. The Department manages these risks by actively reviewing and managing the working capital requirements of these activities.

Reconciliation of movement in carrying amounts [AASB 141.50]

(\$ thousand)

| Source reference | Livestock | | Nature forests | | Total | |
|------------------|--------------|-----------|----------------|-----------|--------------|-----------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | .. | .. | .. | .. | .. | .. |
| | 2 545 | .. | 657 | .. | 3 202 | .. |
| AASB 141.50(b) | .. | .. | 856 | .. | 856 | .. |
| AASB 141.50(a) | 1 454 | .. | 22 | .. | 1 476 | .. |
| AASB 141.50(c) | .. | .. | (250) | .. | (250) | .. |
| AASB 141.50(d) | (1 250) | .. | .. | .. | (1 250) | .. |
| AASB 141.50(g) | .. | .. | .. | .. | .. | .. |
| | 2 749 | .. | 1 285 | .. | 4 034 | .. |

Guidance – Biological assets

An entity shall disclose:

- (a) a description of each group of biological assets; [AASB 141.41]
- (b) the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets; [Now captured by AASB13.93]
- (c) the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest; [Now captured by AASB13.93]
- (d) the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities; [AASB 141.49(a)]
- (e) the amount of commitments for the development or acquisition of biological assets; [AASB 141.49(b)]
- (f) financial risk management strategies related to agricultural activity [AASB 141.49(c)]; and
- (g) if not disclosed elsewhere in the financial statements, an entity shall provide a description of:
 - (i) the nature of its activities involving each group of biological assets; and
 - (ii) non-financial measures or estimates of the physical quantities of each group of the entity's biological assets at the end of the period and output of agricultural produce during the period. [AASB 141.46]

Disclosure for gain arising from changes in fair value

Gain arising from changes in fair value less costs to sell attributable to physical and price changes may relate to changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less costs to sell recognised in the net result as an 'other economic flow' due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops). [AASB 141.51]

Additional disclosures for biological assets where fair value cannot be measured reliably

If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses at the end of the period, the entity shall disclose for such biological assets:

- (a) a description of the biological assets;
- (b) an explanation of why fair value cannot be measured reliably;
- (c) if possible, the range of estimates in which fair value is highly likely to lie;
- (d) the depreciation method used;
- (e) the useful lives or the depreciation rates used; and
- (f) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

[AASB 141.54]

If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses, an entity shall disclose:

- any gain or loss recognised on disposal of such biological assets; and
- the related reconciliation (paragraph 50 of AASB 141 *Agriculture*).

In addition, the reconciliation shall include the following amounts recognised in the net result related to those biological assets:

- (a) impairment losses;
- (b) reversals of impairment losses; and
- (c) depreciation.

[AASB 141.55]

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Guidance – Biological assets (*continued*)

If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:

- (a) a description of the biological assets;
- (b) an explanation of why fair value has become reliably measurable; and
- (c) the effect of the change.

[AASB 141.56]

Government grants

An entity shall disclose the following related to agricultural activity covered by this standard:

- (a) the nature and extent of government grants recognised in the financial statements;
- (b) unfulfilled conditions and other contingencies attaching to government grants; and
- (c) significant decreases expected in the level of government grants.

[AASB 141.57]

5.4 Intangible assets

(\$ thousand)

| Source reference | | Computer software | | Total | |
|---------------------|---|-------------------|----------------|----------------|----------------|
| | | 2018 | 2017 | 2018 | 2017 |
| | Gross carrying amount | | | | |
| AASB 138.118(c) | Opening balance | 10 295 | 10 875 | 10 295 | 10 875 |
| AASB 138.118(c) | Additions | 2 655 | 540 | 2 655 | 540 |
| AASB 138.118(e)(i) | Additions from internal development | 631 | 150 | 631 | 150 |
| AASB 138.118(e)(i) | Acquisitions from business combinations | 3 650 | .. | 3 650 | .. |
| AASB 138.118(e)(ii) | Disposals or classified as held for sale | (7 015) | (1 270) | (7 015) | (1 270) |
| AASB 138.118(c) | Closing balance | 10 216 | 10 295 | 10 216 | 10 295 |
| FRD 109 | Accumulated depreciation, amortisation and impairment | | | | |
| | Opening balance | (2 848) | (3 129) | (2 848) | (3 129) |
| AASB 138.118(c) | Amortisation of intangible produced assets ^(a) | (1 471) | (1 554) | (1 471) | (1 554) |
| AASB 138.118(e)(vi) | Amortisation of intangible non-produced assets ^(a) | .. | .. | .. | .. |
| AASB 138.118(e)(i) | Acquisitions from business combinations | (1 288) | .. | (1 288) | .. |
| AASB 138.118(e)(ii) | Disposals or classified as held for sale | 3 375 | 1 250 | 3 375 | 1 250 |
| AASB 138.118(e)(iv) | Impairment losses charged to net result ^(b) | (2 010) | .. | (2 010) | .. |
| AASB 138.118(e)(v) | Reversals of impairment losses charged to net result | .. | 585 | .. | 585 |
| AASB 138.118(c) | Closing balance | (4 242) | (2 848) | (4 242) | (2 848) |
| | Net book value at end of financial year | 5 974 | 7 447 | 5 974 | 7 447 |

Notes:

(a) The consumption of intangible produced assets is included in 'depreciation' line item, where the consumption of the intangible non-produced assets is included in 'net gain/(loss) on non-financial assets' line item on the comprehensive operating statement.

(b) Impairment losses are included in the line item 'net gain/(loss) on non-financial assets' in the comprehensive operating statement. Due to the development of the Series Z software as discussed below, it was determined that the existing software will be phased out over the next year and as such, an impairment loss was recognised for the period based on its recoverable amount, which was determined on fair value less costs to sell using market prices.

Initial recognition

Purchased intangible assets are initially recognised at cost. When the recognition criteria in AASB 138 *Intangible Assets* is met, internally generated intangible assets are recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Depreciation and amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. [AASB 138.74-75; FRD 109]

An **internally generated intangible asset** arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) an intention to complete the intangible asset and use or sell it;
- (c) the ability to use or sell the intangible asset;
- (d) the intangible asset will generate probable future economic benefits;
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (f) the ability to measure reliably the expenditure attributable to the intangible asset during its development. [AASB 138.57]

Subsequent measurement

Intangible produced assets with finite useful lives, are amortised as an 'expense from transactions' on a straight line basis over their useful lives. Produced intangible assets have useful lives of between 3 and 5 years.

Intangible non-produced assets with finite lives are amortised as an 'other economic flow' on a straight line basis over their useful lives. The amortisation period is three to five years. [AASB 138.97, 138.104, 138.108-109 and 138.118(b)]

Impairment of intangible assets

Goodwill and intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified.

The policy in connection with testing for impairment is outlined in section 5.1.1. [AASB 136.10(a)]

Significant intangible assets

The Department has capitalised software development expenditure for the development of its Series Z technology software. The carrying amount of the capitalised software development expenditure is \$5.97 million (2017: \$7.45 million). Its useful life is five years and will be fully amortised in 2020. [AASB 138.118(a), 138.122(b)]

Guidance – Intangible assets

Disclosure of amortisation

An entity shall disclose the line item(s) of the comprehensive operating statement in which any amortisation of intangible assets is included. [AASB 138.118(d)]

An entity shall also disclose a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements. [AASB 138.122(b)]

Additional disclosures for indefinite life intangible assets

An entity shall disclose, for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life. [AASB 138.122(a)]

Additional disclosures for intangible assets acquired by way of a government grant and initially recognised at fair value [AASB 138.120]

For intangible assets acquired by way of a government grant and initially recognised at fair value, an entity shall disclose:

- (a) the fair value initially recognised for these assets;
- (b) their carrying amount; and
- (c) whether they are measured after recognition under the cost model or the revaluation model. [AASB 138.122(c)]

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Guidance – Intangible assets (*continued*)

Additional disclosures for intangible assets whose title is restricted [AASB 138.122(d)]

The entity is required to disclose the existence and carrying amounts of intangible assets whose title is restricted.

Additional disclosures for intangible assets pledged as security for liabilities [AASB 138.122(d)]

The entity is required to disclose the carrying amounts of intangible assets pledged as security for liabilities.

Additional disclosures for commitments to acquire intangibles

The entity shall disclose the amount of contractual commitments for the acquisition of intangible assets. [AASB 138.122(e)]

Other information

An entity is encouraged, but not required, to disclose the following information:

- (a) a description of any fully amortised intangible asset that is still in use; and
- (b) a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in AASB 138. [AASB 138.128]

Intangible assets revalued using the revaluation model

If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:

- (a) by class of intangible assets:
 - (i) the effective date of the revaluation;
 - (ii) the carrying amount of revalued intangible assets; and
 - (iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model;
- (b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders; and
- (c) the methods and significant assumptions applied in estimating the assets' fair values. [Now captured by AASB13.93]

Notwithstanding (a)(iii) above, in respect of not-for-profit entities, for each revalued class of intangible assets, the requirement to disclose the carrying amount that would have been recognised had the assets been carried under the cost model does not apply. [AASB 138.Aus124.1]

Impairment of intangible assets

An entity discloses information on impaired intangible assets in accordance with AASB 136 *Impairment of Assets* in addition to the information required by AASB 138 *Intangible Assets*. [AASB 138.120]

Factors that are considered in determining the useful life of an intangible asset include:

- (a) the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
- (b) typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
- (c) technical, technological, commercial or other types of obsolescence;
- (d) the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
- (e) expected actions by competitors or potential competitors;
- (f) the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;
- (g) the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
- (h) whether the useful life of the asset is dependent on the useful life of other assets of the entity. [AASB 138.90]

Guidance – Intangible assets (continued)**Internal use software**

Capitalisation threshold: FRD 109 requires expenditure on a non-monetary item without physical substance to be recognised as an intangible asset only if the amount involved meets the capitalisation threshold that is material to the entity. In addition, an entity should consider the following in determining the capitalisation threshold:

- (a) the impact of the capitalisation threshold on the comprehensive operating statement and balance sheet, taking into consideration the pattern of investment and that an intangible asset may have a relatively short useful life (e.g. useful life of software is usually only three to five years); and
- (b) the administrative burden of conducting annual impairment tests of intangible assets. [FRD 109]

Research activities (or research phase of internal projects): AASB 138 specifically prohibits the recognition of research activities as an asset. [AASB 138.54]

Internal use software: [AASB 138.54, FRD 109 App 1] Purchased internal use software may comprise components with differing accounting treatment (refer to Appendix 1 of FRD 109 for further guidance). Where the accounting treatment differs, each component of the software must be proportionately allocated, based on its fair value, over the total contract price.

Internally developed internal use software usually involves three stages (refer Appendix 1 of FRD 109 for additional guidance):

- (a) preliminary project stage – costs to be expensed;
- (b) application development stage – costs to be capitalised or expensed; and
- (c) post implementation/operation stage – costs to be expensed.

Internally developed internal use software may comprise more than one component. For example, the development of an accounting software system may consist of three components: general ledger, accounts payable sub-ledger and an accounts receivable sub-ledger. Where this is the case, each component of the system should be accounted for as a separate component and in accordance with FRD 109.

5.5 Investments accounted for using the equity method

Joint arrangements are contractual arrangements between the Department and one or more other parties to undertake an economic activity that is subject to joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities of the joint arrangement require the unanimous consent of the parties sharing control. [AASB 11.7]

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The Department accounted for two investments using the equity method: New Technology Ltd (an associate) and Technology supply Pty Ltd (a joint venture). After initially recognising the investment value at cost in the balance sheet, the equity method requires the State's share of the post-acquisition profits or losses of these investments to be recognised in the net result as 'other economic flows'. The share of post-acquisition movements in revaluation surpluses and any other reserves is recognised in both the comprehensive operating statement and the statement of changes in equity. The cumulative post-acquisition movements are adjusted against the cost of the investment, as well as any dividends received or receivable. [AASB 128.10; AASB 12.21(b), AASB 11.16]

Investments in associate

New Technology Ltd is one of the Department's strategic partners specialising in developing new biological equipment in Melbourne, Victoria. The main business activities include: [insert detail]. New Technology Ltd is an ASX publicly listed company.

Investments in joint venture

Up until 30 June 2017, the Department had a joint venture with Technology Supply Pty Ltd to provide expertise in technology supply services to the business units. The main business activities included: [xxx]

The joint venture ceased to operate effective from 1 July 2017. [AASB 12.21(a)]

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Details of material associates and joint ventures [AASB12.21(b)]

(\$ million)

| Name of entity | Country of incorporation | Measurement method | Ownership interest | | Published fair value | |
|---------------------------------------|--------------------------|--------------------|--------------------|------|----------------------|-------|
| | | | 2018 | 2017 | 2018 | 2017 |
| Associate | | | | | | |
| New Technology Pty Ltd ^(a) | Australia | Equity method | 35 | 35 | 6 566 | 5 351 |
| Joint venture | | | | | | |
| Technology Supply Pty Ltd | Australia | Equity method | .. | 25 | n.a. | n.a. |

Note:

(a) As at 30 June 2018, the fair value of the Department's interest in New Technology Ltd was based on the quoted market price available on the Australian Stock Exchange, which is a level 1 input in terms of AASB 13 Fair Value Measurement.

Summarised financial information

Presented below is the summarised financial information for the investments accounted for using the equity method. The summarised financial information below represents amounts shown in the financial statements of the equity accounted investments, prepared under AAS and adjusted as appropriate by the Department.

The financial year end date of New Technology Ltd is 30 April. For the purpose of applying the equity method of accounting, the financial statements of New Technology Ltd have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 30 June 2018.

The Department's share of the contingent liabilities and commitments of its associates and joint ventures are disclosed in Note 8.2 and Note 7.5 respectively.

New Technology Pty Ltd – Associate

(\$ thousand)

| Source reference | | 2018 | 2017 |
|-------------------------|---|----------------|----------------|
| | Summarised balance sheet | | |
| AASB 12.B12(b)(i) | Current assets | 6 224 | 4 706 |
| AASB 12.B12(b)(ii) | Non-current assets | 14 524 | 13 043 |
| | Total assets | 20 748 | 17 749 |
| AASB 12.B12(b)(iii) | Current liabilities | (1 778) | (1 345) |
| AASB 12.B12(b)(iv) | Non-current liabilities | (4 150) | (3 138) |
| | Total liabilities | (5 928) | (4 483) |
| | Net assets | 14 820 | 13 266 |
| | Summarised operating statement | | |
| AASB 12.B12(b)(v) | Total income from transaction | 6 154 | 3 803 |
| AASB 12.B12(b)(vi) | Net result from continuing operation | 2 620 | 1 150 |
| AASB 12.B12(b)(vii) | Net result from discounting operation | 394 | 713 |
| | Net result | 3 014 | 1 863 |
| AASB 12.B12(b)(ix) | Other economic flows – other comprehensive income | 743 | 800 |
| | Total comprehensive income | 3 757 | 2 663 |
| AASB 12.B14(b) | Movements in carrying amount of interests in the associate | | |
| | Carrying amount at the beginning of the year | 4 643 | 4 262 |
| AASB 12.B12(b)(vi)(vii) | Department's share of associate's operating statement: | | |
| | Share of associate's net result after tax | 739 | 456 |
| | Share of associate's other comprehensive income | 260 | 280 |
| | Dividends received/receivable from associate | (455) | (355) |
| | Carrying amount at the end of the year | 5 187 | 4 643 |

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Technology Supplies Pty Ltd– Joint venture

(\$ thousand)

| <i>Source reference</i> | 2018 | 2017 |
|-------------------------|--|----------------|
| | Summarised balance sheet | |
| | Current assets: | |
| AASB 12.B12(b)(i) | | |
| AASB 12.B13(a) | Cash and cash equivalent | 1 212 |
| | Other current assets (excluding cash) | 2 467 |
| AASB 12.B12(b)(ii) | Total non-current assets | 5 701 |
| | Total assets | 9 380 |
| | Current liabilities: | |
| AASB 12.B12(b)(iii) | | |
| AASB 12.B13(b) | Financial liabilities (excluding payables, provisions) | (300) |
| | Other non-financial liabilities (including payables, provisions) | (751) |
| | Non-current liabilities: | |
| | Financial liabilities (excluding payables, provisions) | (1 150) |
| | Other non-financial liabilities (including payables, provisions) | (1 303) |
| | Total liabilities | (3 504) |
| | Net assets | 5 876 |
| | Summarised operating statement | |
| AASB 12.B12(b)(v) | Revenue | 9 055 |
| AASB 12.B13(e) | Interest income | 350 |
| AASB 12.B13(d) | Depreciation | (265) |
| | Interest expense | (1 250) |
| AASB 12.B13(f) | Total income from transactions | 7 890 |
| AASB 12.B12(b)(vi) | Net result from continuing operation | 2 536 |
| | Net result from discontinuing operation | 447 |
| AASB 12.B12(b)(vii) | Net result | 2 983 |
| AASB 12.B12(b)(viii) | Other economic flows – other comprehensive income | .. |
| AASB 12.B12(b)(ix) | Total comprehensive income | 2 983 |
| AASB 12.B14(b) | Movements in carrying amount of interests in the joint venture | |
| | Carrying amount at the beginning of the year | 1 104 |
| AASB 12.B12(b)(vi)(vii) | Department's share of interests in the joint venture's operating statement: | |
| | Share of joint venture's net result after tax | 522 |
| | Share of joint venture's other comprehensive income | .. |
| | Dividends received/receivable from joint venture | (157) |
| | Carrying amount at the end of the year | 1 469 |

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Guidance – Investments accounted using the equity method

AASB 11 *Joint Arrangements* defines a joint arrangement as an arrangement of which two or more parties have joint control. A joint arrangement is either a joint operation or a joint venture, depending upon the rights and obligations of the parties to the arrangement.

Accounting for joint ventures using the equity method

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. [AASB 11.16]

A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with AASB 128 *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that standard. [AASB 11.24]

Application of equity method: Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive income. [AASB 128.10]

Significant judgements and assumptions: Disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- (a) that it has joint control of an arrangement or significant influence over another entity; and
- (b) the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

Specifically, an entity shall disclose, for example, significant judgements and assumptions made in determining that:

- (a) it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity; or
- (b) it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

Nature, extent and financial effects of an entity's interests in joint arrangements and associates

An entity shall disclose:

- (a) for each joint arrangement and associate that is material to the reporting entity:
 - (i) the name of the joint arrangement or associate;
 - (ii) the nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities);
 - (iii) the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate; and
 - (iv) the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable);
- (b) for each joint venture and associate that is material to the reporting entity:
 - (i) whether the investment in the joint venture or associate is measured using the equity method or at fair value;
 - (ii) summarised financial information about the joint venture or associate as specified in paragraphs B12 and B13 of AASB 12; and
 - (iii) if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment;
- (c) financial information as specified in paragraph B16 about the entity's investments in joint ventures and associates that are not individually material:
 - (i) in aggregate for all individually immaterial joint ventures; and, separately,
 - (ii) in aggregate for all individually immaterial associates.

Guidance – Investments accounted using the equity method (continued)**Risks associated with an entity's interests in joint ventures and associates** [AASB 12.23]

An entity shall disclose:

- (a) commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs B18–B20; and
- (b) in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.

Disclosure in aggregate for individually immaterial associates and joint ventures

An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method.

An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- (a) profit or loss from continuing operations;
- (b) post tax profit or loss from discontinued operations;
- (c) other comprehensive income; and
- (d) total comprehensive income.

An entity provides the disclosures separately for joint ventures and associates.

Restrictions on fund transfers [AASB 12.22(a)]

The entity shall disclose the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements; regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity.

Unrecognised share of losses [AASB 12.22 (c)]

The entity shall disclose the unrecognised share of losses of an associate or joint venture, both for the period and cumulatively, if recognition of the associate's or joint venture's share of losses has been discontinued.

Different reporting periods [AASB 12.22(b)]

When the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity, the entity should disclose:

- (a) the date of the end of the reporting period of the financial statements of that joint venture or associate; and
- (b) the reason for using a different date or period.

[This disclosure is not applicable if the financial statements of an associate or joint venture used in applying the equity method are as of a date or for a period that is different from that of the entity.]

Equity accounted investment reduced to zero [AASB 128.38-39]

If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate.

Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (i.e. priority in liquidation).

After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Guidance – Investments accounted using the equity method (*continued*)

Discontinuing the use of the equity method [AASB 128.22-23]

An entity shall discontinue the use of the equity method from the date that its investment ceases to be an associate or a joint venture as follows:

- (a) If the investment becomes a subsidiary, the entity shall account for its investment in accordance with AASB 3 *Business Combinations* and AASB 10 *Consolidated Financial Statements*; or
- (b) If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset.

The entity shall recognise in profit or loss any difference between:
 - (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
 - (ii) the carrying amount of the investment at the date the equity method was discontinued.
- (c) When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued. For example, if an associate or a joint venture has cumulative exchange differences relating to a foreign operation and the entity discontinues the use of the equity method, the entity shall reclassify to profit or loss the gain or loss that had previously been recognised in other comprehensive income in relation to the foreign operation.

All disclosures requirements in relation to joint ventures are applicable for both the current and the comparative periods irrespective of the fictitious discontinuation of the joint venture for the 2017-18 year.

Interests in subsidiary and unconsolidated structured entities

Disclosure on interests in subsidiary and unconsolidated structured entities is not applicable if the department does not have control over another entity (i.e. no interests in subsidiaries) or has not identified any structure entity as defined by AASB 12 Disclosures of Interests in Other Entities. In relation to disclosures required for subsidiaries, entities should complete the assessment of the control test in accordance with AASB 10 Consolidated Financial Statements to determine whether there are any entities that meet the control criteria set out in AASB 10, and whether the following disclosures will be applicable based on the relevant facts and circumstances. Please refer to Appendix 4 AASB 10 Consolidated Financial Statements checklist – Control analysis for Victorian public sector entities for the assessment.

Where a department has identified that it has control over another entity and is required to consolidate its interests in the entity, please note that the department will be required to present its financial statement for the department as a consolidated entity and as a parent for the current and comparative periods as required by AASB 10.4 and AASB 101.Aus 7.2. Please refer to Appendix 5 Interests in subsidiary and unconsolidated structured entities for more information.

5.6 Investments and other financial assets

(\$ thousand)

| Source reference | | 2018 | 2017 |
|------------------|---|---------------|---------------|
| AASB 101.61 | Current investments and other financial assets | | |
| | Term deposits: ^(a) | | |
| | Foreign currency term deposits > three months | 1 000 | 750 |
| | Australian dollar term deposits > three months | 941 | 2 443 |
| | Debt securities: ^(b) | | |
| | Five year government bonds | 778 | 406 |
| | Ten year government bonds | 220 | 340 |
| | Debentures | 565 | .. |
| | Total current investments and other financial assets | 3 504 | 3 939 |
| AASB 101.61 | Non-current investments and other financial assets | | |
| | Equities and managed investment schemes: | | |
| | Listed securities ^(c) | 1 614 | 1 492 |
| | Unlisted securities ^(d) | 222 | 538 |
| | Managed investment schemes ^(c) | 229 | 2 149 |
| | Debt securities: | | |
| | Five year government bonds at fair value through profit or loss | 3 823 | 2 409 |
| | Five year government bonds | 455 | 2 195 |
| | Ten year government bonds | 1 880 | 1 880 |
| | Debentures | 1 300 | 192 |
| | Term deposits: ^(a) | | |
| | Australian dollar term deposits > 12 months | 949 | 1 937 |
| | Total non-current investments and other financial assets | 10 472 | 12 792 |
| | Total investments and other financial assets | 13 976 | 16 731 |

Notes:

(a) Term deposits under 'investments and other financial assets' class include only term deposits with maturity greater than 90 days.

(b) These are debt securities that are maturing within the next 12 months.

(c) The Department designated all its equities and managed investment schemes at fair value through profit or loss. Unless such assets are part of a disposal group held for sale, all equities and managed investment schemes are classified as non-current.

(d) Unlisted securities include shares in Entity ABC, which were gifted to the Department under the Davey Bequest and can only be sold to fund projects for the development of new technology.

Ageing analysis of financial assets [AASB 7.37(a),(b)]

(\$ thousand)

| | Carrying amount | Not past due and not impaired | Past due but not impaired | | | |
|-----------------|-----------------|-------------------------------|---------------------------|------------|-------------------|-----------|
| | | | Less than 1 month | 1-3 months | 3 months – 1 year | 1-5 years |
| 2018 | | | | | | |
| Term deposits | 2 890 | 2 890 | .. | .. | .. | .. |
| Debt securities | 9 021 | 9 021 | .. | .. | .. | .. |
| Total | 11 911 | 11 911 | .. | .. | .. | .. |
| 2017 | | | | | | |
| Term deposits | 5 130 | 5 130 | .. | .. | .. | .. |
| Debt securities | 7 422 | 7 422 | .. | .. | .. | .. |
| Total | 12 552 | 12 552 | .. | .. | .. | .. |

Guidance – Investments and other financial assets

Restricted assets

Where the use of an asset, which is recognised in the balance sheet of a Department is restricted, wholly or in part, by regulations or other externally imposed requirements, and information about those restrictions is relevant to assessing the performance or financial position of the Department, the following must be disclosed:

- (a) the identity and carrying amount of those assets, the use of which is restricted; and
- (b) the nature of those restrictions.

Derecognition of financial assets

These requirements are addressed in the 'Financial Instruments' note and are not repeated here.

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

5.7 Acquisition and disposal of entities

5.7.1 Entity acquired [\[AASB 107.40\]](#)

On 2 August 2017, the Department acquired 100 per cent of the net assets of IT Communications Pty Limited for cash consideration of \$26 million. Details of the acquisition are as follows:

(\$ thousand)

| | 2018 | 2017 |
|---|---------------|-----------|
| Consideration | | |
| Cash and cash equivalents | 26 035 | .. |
| Land and buildings | .. | .. |
| Ordinary shares | .. | .. |
| Deferred purchase consideration | .. | .. |
| Other | .. | .. |
| Total consideration | 26 035 | .. |
| Fair value of net assets acquired | | |
| Assets | | |
| Cash and deposits | 2 628 | .. |
| Receivables | 1 356 | .. |
| Investments and other financial assets | 1 899 | .. |
| Inventories | 1 819 | .. |
| Property, plant and equipment | 20 392 | .. |
| Other non-financial assets | 9 | .. |
| Biological assets | 122 | .. |
| Intangible assets | 2 362 | .. |
| Liabilities | | |
| Payables | (3 219) | .. |
| Provisions | (1 246) | .. |
| Other liabilities | (87) | .. |
| Net assets acquired | 26 035 | .. |
| Net cash outflows on acquisition | | |
| Cash and cash equivalents consideration | 26 035 | .. |
| Less cash and cash equivalent balances acquired | (2 628) | .. |
| Net cash outflows | 23 407 | .. |

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

5.7.2 Entity disposed [AASB 107.40]

During the financial year, the Department lost control of one business due to disposal. Details of the disposal are as follows:

| | (\$ thousand) | |
|---|---------------|-----------|
| | 2018 | 2017 |
| Consideration | | |
| Cash and cash equivalents | 17 795 | .. |
| Land and buildings | ... | .. |
| Ordinary shares | ... | .. |
| Deferred purchase consideration | ... | .. |
| Other | ... | .. |
| Total consideration | 17 795 | .. |
| Book value of net assets disposed | | |
| Assets | | |
| Cash and deposits | (348) | .. |
| Receivables | 7 372 | .. |
| Investments and other financial assets | 4 065 | .. |
| Inventories | 2 555 | .. |
| Property, plant and equipment | 14 227 | .. |
| Liabilities | | |
| Payables | (2 778) | .. |
| Borrowings | (2 599) | .. |
| Provisions | (4 678) | .. |
| Other liabilities | (20) | .. |
| Net assets acquired | 17 795 | .. |
| Net cash inflows on disposal | | |
| Cash and cash equivalents consideration | 17 795 | .. |
| Less cash and cash equivalent balances acquired | (348) | .. |
| Net cash flows | 17 447 | .. |

Guidance – Obtaining and losing control of subsidiaries and other businesses

The aggregate cash flows arising from acquisitions and from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities. [AASB107.39]

An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries and other business units during the period, each of the following:

- the total consideration paid or received;
- the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;
- the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and
- the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category. [AASB107.40]

The following additional information shall be provided if it is relevant in understanding the financial position and liquidity of an entity:

- the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
- the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and
- the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment. [AASB107.50]

6. OTHER ASSETS AND LIABILITIES

Introduction

This section sets out those assets and liabilities that arose from the Department's controlled operations.

Structure

| | | |
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Guidance – Other asset and liability disclosures

An entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than twelve months after the reporting period, and (b) more than twelve months after the reporting period. [AASB101.61]

Instead of disclosing this information in a separate note it may be more appropriate to include such disclosures in the relevant asset and liability notes. An illustrative example of these disclosure items has not been given in the Model on the basis that the balance sheet and other notes make the required disclosures.

6.1 Receivables

(\$ thousand)

| Source reference | | 2018 | 2017 |
|------------------|--|---------------|---------------|
| AASB 101.78(b) | Contractual | | |
| | Finance lease receivables | 581 | 1 231 |
| | Sale of goods and services | 1 374 | 985 |
| | Loans to third parties | 544 | 485 |
| AASB 139.63 | Provision for doubtful contractual receivables | (520) | (327) |
| | Accrued investment income | 1 864 | 1 058 |
| | Other receivables | 334 | 438 |
| | Statutory | | |
| | Amount owing from Victorian Government | 31 500 | 16 151 |
| | GST input tax credit recoverable | 34 | 50 |
| | Fines and regulatory fees | 100 | 75 |
| | Other receivables | 234 | 399 |
| | Total receivables | 36 045 | 20 545 |
| | <i>Represented by</i> | | |
| AASB 101.61 | Current receivables | 28 665 | 18 146 |
| AASB 101.61 | Non-current receivables | 7 380 | 2 398 |

Contractual receivables are classified as financial instruments and categorised as 'loans and receivables'. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost using the effective interest method, less any impairment.

Statutory receivables do not arise from contracts and are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments. Amounts recognised from the Victorian Government represent funding for all commitments incurred and are drawn from the Consolidated Fund as the commitments fall due.

| Movement in the provision for doubtful debts [AASB 7.16A] | (\$ thousand) | |
|---|---------------|--------------|
| | 2018 | 2017 |
| Balance at beginning of the year | (327) | (53) |
| Reversal of unused provision recognised in the net result | 30 | 15 |
| Transfers in/acquired outputs | (25) | .. |
| Transfers out/disposed outputs | 137 | .. |
| Increase in provision recognised in the net result | (485) | (341) |
| Reversal of provision of receivables written off during the year as uncollectible | 150 | 52 |
| Balance at end of the year | (520) | (327) |

Doubtful debts: Receivables are assessed for bad and doubtful debts on a regular basis. A provision for doubtful debts is recognised when there is objective evidence that the debts may not be collected and bad debts are written off when identified. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

A provision is made for estimated irrecoverable amounts from the sale of goods when there is objective evidence that an individual receivable is impaired. The increase in the provision for the year is recognised in the net result.

Loans to third parties are repayable on demand. However, payment is not expected within 12 months after the reporting period and these balances are consequently classified as non-current.

Bad debts considered as written off by mutual consent are classified as a transaction expense. Bad debts not written off, but included in the provision for doubtful debts, are classified as other economic flows in the net result.

| | (\$ thousand) | | | | | |
|----------------------------|-----------------|-------------------------------|---------------------------|------------|-------------------|-------------|
| | Carrying amount | Not past due and not impaired | Past due but not impaired | | | |
| | | | Less than 1 month | 1-3 months | 3 months – 1 year | 1 – 5 years |
| 2018 | | | | | | |
| Finance lease receivables | 581 | 523 | 58 | - | - | - |
| Sale of goods and services | 1 253 | 908 | 125 | 94 | 63 | 63 |
| Loans to third parties | 146 | 106 | 15 | 11 | 7 | 7 |
| Accrued investment income | 1 864 | 1 864 | - | - | - | - |
| Other receivables | 334 | 334 | - | - | - | - |
| Total | 4 178 | 3 735 | 198 | 105 | 70 | 70 |
| 2017 | | | | | | |
| Finance lease receivables | 1 231 | 1 108 | 123 | - | - | - |
| Sale of goods and services | 902 | 654 | 90 | 68 | 45 | 45 |
| Loans to third parties | 241 | 175 | 24 | 18 | 12 | 12 |
| Accrued investment income | 1 058 | 1 058 | - | - | - | - |
| Other receivables | 438 | 438 | - | - | - | - |
| Total | 3 870 | 3 433 | 237 | 86 | 57 | 57 |

No interest is charged for the first 30 days from the invoice date. Thereafter, interest is charged at 2 per cent on the outstanding balance. The average credit period for sales of goods/services and for other receivables is 30 days. There are no material financial assets that are individually determined to be impaired. Currently the Department does not hold any collateral as security nor credit enhancements relating to any of its financial assets.

There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated.

Finance leases (Department as lessor) [\[AASB 117.36, 117.39\]](#)

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recorded at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease receipts are apportioned between periodic interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Finance lease receivables relate to equipment with lease terms of five years. The lessees have options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. [\[AASB 117.47\(f\)\]](#). In relation to the leasing arrangements below, there are unguaranteed residual values of \$9 000 in 2017-18 (\$24 000 in 2016-17) that were accrued for the benefit of the Department. [\[AASB 117.47\(c\)\]](#)

6. OTHER ASSETS AND LIABILITIES

(\$ thousand)

| Source reference | | Minimum lease receivables ^(a) | | Present value of minimum lease receivables | |
|------------------|---|--|--------------|--|--------------|
| | | 2018 | 2017 | 2018 | 2017 |
| AASB 117.47(a) | Finance lease receivables | | | | |
| | Not longer than one year | 270 | 46 | 225 | 38 |
| | Longer than one year but not longer than five years | 305 | 1 016 | 254 | 847 |
| | Longer than five years | 124 | 420 | 102 | 346 |
| | Minimum future lease receivables | 699 | 1 482 | 581 | 1 231 |
| AASB 117.47(b) | Less unearned finance income | (118) | (251) | - | - |
| | Present value of minimum lease receivables | 581 | 1 231 | 581 | 1 231 |
| | Included in the financial statements as: | | | | |
| | Current finance lease receivables | | | 225 | 38 |
| | Non-current finance lease receivables | | | 356 | 1 193 |
| | Total | | | 581 | 1 231 |

Note:

(a) Minimum future lease payments receivable includes the aggregate of all lease payments receivable and any guaranteed residual.

Guidance – Receivables

Statutory receivables [AASB 132.AG12]: Assets that are not contractual (such as assets that arise as a result of statutory requirements), are not financial instruments as defined. Therefore, although these assets are similar to financial instruments, they are not in the scope of AASB 7 *Financial Instruments: Disclosures*. However, entities may wish to apply disclosure requirements similar to those from AASB 7 to such assets at their own discretion. Note: impairment of statutory receivables is determined under AASB 136 and not AASB 139.

Appropriations are amounts owed by the Victorian Government as legislated in the Appropriations Act. Due to the existence of a legislative instrument, the appropriation receivable to an entity is statutory in nature, and hence not in the scope of the financial instrument standards.

Amounts owing from Victorian Government: An amount owing in the Department's State Administration Unit (SAU) inter entity account balance that relates to appropriations should be reported as a receivable classified as either current or non-current as appropriate, with the non-current portion (if any) measured on present value basis.

Components of SAU that relate to depreciation equivalent funding must also be allocated between current and non-current, with the non-current portion (if any) measured on present value basis.

Components of the SAU that relate to the balance of surplus earned on the provision of outputs are deemed to be current unless the entity has made a firm decision to defer application of the surplus by more than 12 months from the end of the reporting period. In the latter case, an allocation must be made between current and non-current, with the non-current portion measured on a present value basis, as appropriate.

Components of the SAU that relate to employee benefits must be allocated between current and non-current. Given the latter is based on employee benefit liabilities that are themselves measured on a present value basis, no further discounting or measurement adjustment is required.

All other balances in the SAU are considered to be current, and so no measurement adjustment is required.

Reversal of amount in provision for receivables written off as uncollectible

Initially, if there is objective evidence for impairment of a receivable, the provision is increased accordingly with the impairment expense recognised in the net result as an 'other economic flow'. However, when it becomes mutually agreed between debtor and creditor that the receivable has become uncollectible, the carrying amount of the receivable needs to be reduced, and a bad debt expense for the write-off recognised in the net result as a transaction. Accordingly at the same time, the amount in the provision together with its related impairment expense initially recognised as an 'other economic flow' will need to be reversed.

Where the bad debt is written off following a unilateral decision, the carrying amount of the receivable needs to be reduced, and a bad debt expense for the write-off recognised in the net result as an 'other economic flow'. Accordingly at the same time, the amount in the provision together with its related impairment expense will need to be reversed.

Guidance – Receivables (continued)**Derecognition of financial assets**

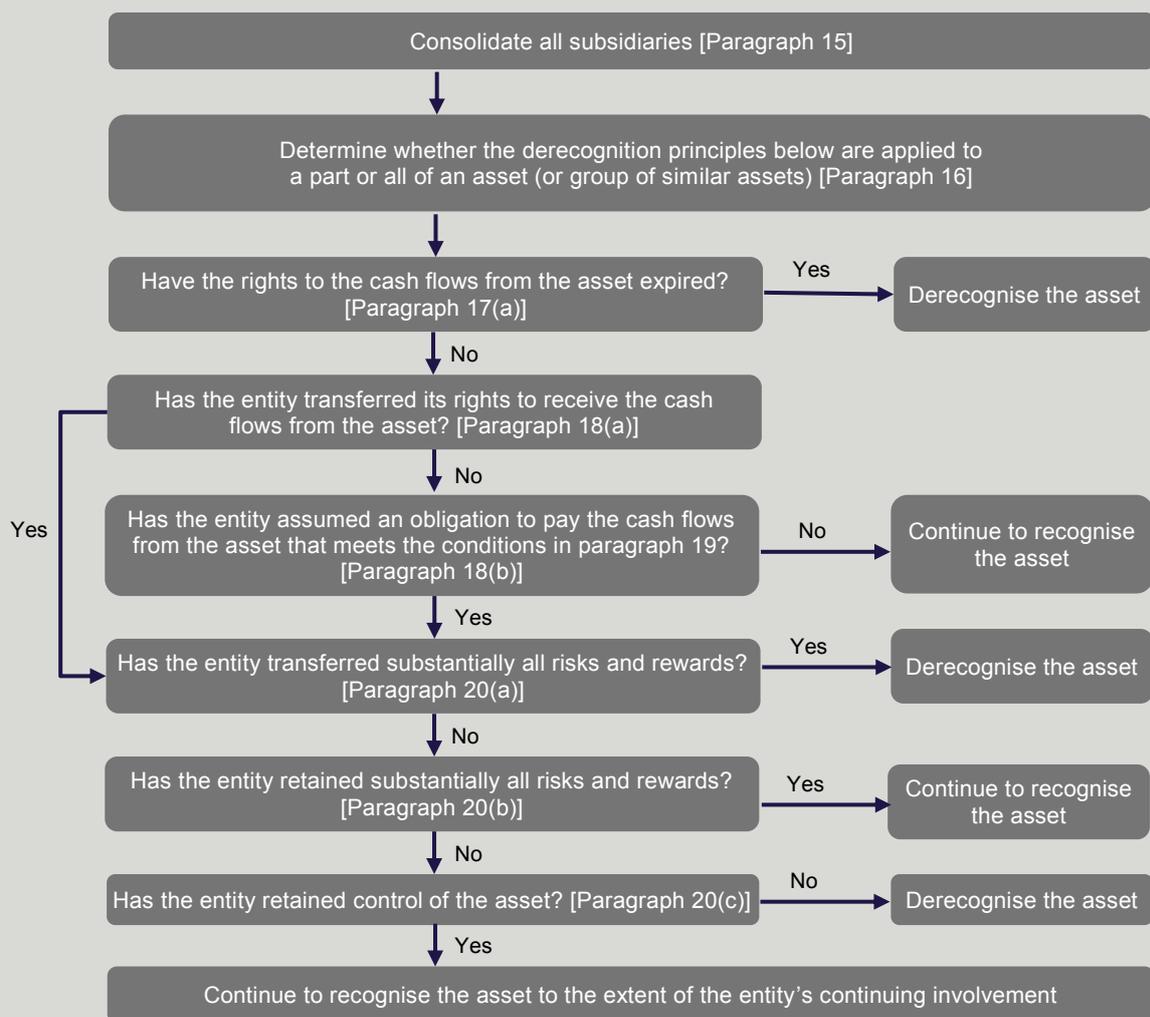
The following flowchart (extract of AASB 139) illustrates the evaluation of whether and to what extent a financial asset is derecognised [Source: AASB 139 Financial Instruments: Recognition and Measurement (August 2014)]

Disclosures for transferred assets that are not derecognised in entirety [AASB 7.42D]

An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition. The entity shall disclose for each class of transferred financial assets that are not derecognised in their entirety:

- (a) the nature of the assets;
- (b) the nature of the risks and rewards of ownership to which the entity is exposed;
- (c) a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets;
- (d) when the entity continues to recognise all of the asset, the carrying amounts of the asset and of the associated liability; and
- (e) when the entity continues to recognise the asset to the extent of its continuing involvement, the total amount of the asset, the amount of the asset that the entity continues to recognise and the carrying amount of the associated liability.

AG36 The following flowchart illustrates the evaluation of whether and to what extent a financial asset is derecognised.



6. OTHER ASSETS AND LIABILITIES

6.2 Payables

(\$ thousand)

| Source reference | 2018 | 2017 |
|--|---------------|---------------|
| Contractual | | |
| Supplies and services | 4 466 | 3 430 |
| Amounts payable to government and agencies | 10 891 | 1 796 |
| Unearned income | 1 145 | 1 990 |
| Other payables | 817 | 8 925 |
| Statutory | | |
| FBT payable | 82 | 169 |
| GST payable | 108 | 225 |
| Other taxes payable | 82 | 169 |
| Total payables | 17 591 | 16 704 |
| <i>Represented by:</i> | | |
| AASB 101.61 Current payables | 14 686 | 14 647 |
| AASB 101.61 Non-current payables | 2 905 | 2 057 |

Payables consist of:

- **contractual payables**, classified as financial instruments and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to the Department prior to the end of the financial year that are unpaid; and
- **statutory payables**, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts. [AASB 7.21, AASB 139.43 and 139.47]

Payables for supplies and services have an average credit period of 30 days. No interest is charged on the 'other payables' for the first 30 days from the date of the invoice. Thereafter, interest is calculated as 2 per cent on the outstanding balance per annum.

The terms and conditions of amounts payable to the government and agencies vary according to the particular agreements and as they are not legislative payables, they are not classified as financial instruments.

Financial guarantees: Payments that are contingent under financial guarantee contracts are recognised as a liability, at fair value, at the time the guarantee is issued. Subsequently, should there be a material increase in the likelihood that the guarantee may have to be exercised, the liability is recognised at the higher of the amount determined in accordance with AASB 137 or the amount initially recognised. [AASB 139.43]

In the determination of fair value, consideration is given to factors including the overall capital management/prudential supervision framework in operation, the protection provided by the State Government by way of funding should the probability of default increase, probability of default by the guaranteed party and the likely loss to the Department in the event of default.

The value of loans and other amounts guaranteed by the Treasurer is disclosed as contingent liabilities.

Maturity analysis of contractual payables ^(a) [AASB 7.39(a)]

(\$ thousand)

| | Carrying amount | Nominal amount | Maturity dates | | | | |
|--|-----------------|----------------|-------------------|--------------|-----------------|--------------|------------|
| | | | Less than 1 month | 1-3 months | 3 months–1 year | 1-5 years | 5+ years |
| 2018 | | | | | | | |
| Supplies and services | 4 466 | 4 466 | 1 786 | 2 680 | .. | .. | .. |
| Amounts payable to government and agencies | 10 891 | 10 891 | 5 633 | 1 610 | 805 | 2 843 | .. |
| Other payables | 817 | 817 | 554 | 158 | 79 | 26 | .. |
| Total | 16 174 | 16 173 | 7 973 | 4 448 | 884 | 2 869 | .. |
| 2017 | | | | | | | |
| Supplies and services | 3 430 | 3 430 | 1 030 | 2 400 | .. | .. | .. |
| Amounts payable to government and agencies | 1 796 | 1 796 | 841 | 272 | 101 | 582 | .. |
| Other payables | 8 925 | 8 925 | 6 355 | 183 | 627 | 962 | 798 |
| Total | 14 151 | 14 151 | 8 226 | 4 653 | 728 | 1 544 | 798 |

Note:

(a) Maturity analysis is presented using the contractual undiscounted cash flows.

Guidance – Payables and other financial liabilities

Statutory payables: Liabilities that are not contractual (such as liabilities that arise as a result of statutory requirements), are not considered financial liabilities. Therefore, although these liabilities are similar to financial instruments, they are in fact not in the scope of AASB 7. However, entities may wish to apply disclosure requirements similar to those from AASB 7 to such liabilities at their own discretion. [AASB 132.AG12]

Financial guarantees: An entity shall disclose the fair value of any financial guarantee that it provides to third parties, should the fair value of the liability become greater than zero, either as part of this note for payables or in the note for other payables. [AASB 139.9]

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Financial guarantee contracts may have various forms, and may arise under legislation. Departments should undertake a comprehensive review to identify whether any financial guarantee contracts exist.

It is highly unlikely financial guarantees would be issued other than under legislation that is administered by DTF, although it is possible. In the rare instance where a financial guarantee has been issued under legislation administered by another department, the department concerned would need to disclose this in a separate note and it is recommended the department seeks separate advice regarding this matter.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee. [AASB 139.47(c)]

Significance of financial instruments: AASB 7 requires an entity to disclose information that enables users of financial statements to evaluate the significance of financial instruments for its financial position and performance. [AASB 7.7]

Nature and extent of risks arising from financial instruments: An entity shall also disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. [AASB 7.31]

6.3 Inventories

(\$ thousand)

| Source reference | | 2018 | 2017 |
|----------------------|---|---------------|---------------|
| | Current inventories | | |
| | Supplies and consumables: | | |
| AASB 102.36(b) | At cost | 7 299 | 9 404 |
| | Work in progress: | | |
| AASB 102.36(b) | At cost | 1 931 | 1 515 |
| | Inventories held for sale: | | |
| | At cost | 2 523 | 8 594 |
| | At net realisable value | 91 | 99 |
| | Total current inventories | 11 845 | 19 612 |
| | Inventories held for distribution: | | |
| AASB 102.Aus 36.1(b) | At cost | 308 | 144 |
| | Loss of service potential | (97) | (24) |
| AASB 101.61 | Total inventories | 12 056 | 19 733 |

Inventories include property held either for sale, or for distribution at zero or nominal cost, or for consumption in the ordinary course of business operations.

Inventories held for distribution are measured at cost, adjusted for any loss of service potential. All other inventories, including land held for sale, are measured at the lower of cost and net realisable value.

Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition. [AASB 102.9, 102.36]

Cost, includes an appropriate portion of fixed and variable overhead expenses. Cost is assigned to land held for sale (undeveloped, under development and developed) and to other high value, low volume inventory items on a specific identification of cost basis. Cost for all other inventory is measured on the basis of weighted average cost.

Bases used in assessing loss of service potential for inventories held for distribution include current replacement cost and technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired. [AASB 102.Aus 9.1]

6. OTHER ASSETS AND LIABILITIES

Guidance – Inventories

The financial statements shall disclose:

- (a) the accounting policies adopted in measuring inventories, including the cost formula used;
- (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- (c) the carrying amount of inventories carried at fair value less costs to sell;
- (d) the amount of inventories recognised as an expense during the period;
- (e) the amount of any write-down of inventories recognised as an expense in the period;
- (f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period;
- (g) the circumstances or events that led to the reversal of a write-down of inventories; and
- (h) the carrying amount of inventories pledged as security for liabilities.

Not-for-profit entities shall disclose:

- (a) the accounting policies adopted in measuring inventories held for distribution, including the cost formula used;
- (b) the total carrying amount of inventories held for distribution and the carrying amount in classifications appropriate to the entity;
- (c) the amount of inventories held for distribution recognised as an expense during the period;
- (d) the amount of any write-down of inventories held for distribution recognised as an expense during the period;
- (e) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories held for distribution recognised as an expense in the period;
- (f) the circumstances or event that led to the reversal of a write-down of inventories held for distribution;
- (g) the carrying amount of inventories held for distribution pledged as security for liabilities; and
- (h) the basis on which any loss of service potential of inventories held for distribution is assessed, or the bases when more than one basis is used.

6.4 Other non-financial assets [AASB 101.61]

| | | (\$ thousand) | |
|-------------------------|---------------------------------------|---------------|------------|
| <i>Source reference</i> | | 2018 | 2017 |
| | Current other assets | | |
| | Prepayments | 1 483 | 380 |
| AASB 101.61 | Total current other assets | 1 483 | 380 |
| | Non-current other assets | | |
| AASB 101.61 | Other | .. | .. |
| | Total non-current other assets | .. | .. |
| | Total other assets | 1 483 | 380 |

Other non-financial assets include prepayments, which represent payments in advance of receipt of goods or services or the payments made for services covering a term extending beyond that financial accounting period.

6.5 Other provisions [\[AASB 137.14, 137.36, 137.45, 137.47, 137.60\]](#)

(\$ thousand)

| <i>Source reference</i> | 2018 | 2017 |
|-------------------------------------|--------------|--------------|
| Current provisions | | |
| Onerous lease contracts | 993 | 2 290 |
| Total current provisions | 993 | 2 290 |
| Non-current provisions | | |
| Onerous lease contracts | 709 | 1 273 |
| Make-good provision | 450 | 375 |
| Total non-current provisions | 1 159 | 1 648 |
| Total other provisions | 2 152 | 3 938 |

Other provisions are recognised when the Department has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time, value of money and risks specific to the provision.

Reconciliation of movements in other provisions

(\$ thousand)

| <i>Source reference</i> | <i>Onerous contracts</i> | <i>Make-good</i> | <i>Total 2018</i> |
|---|--------------------------|------------------|-------------------|
| Opening balance | 3 563 | 375 | 3 938 |
| Additional provisions recognised | 426 | 50 | 476 |
| Additions due to transfer in | .. | .. | .. |
| Additions due to acquisitions | .. | .. | .. |
| Reductions arising from payments/other sacrifices of future economic benefits | (105) | .. | (105) |
| Reductions resulting from re-measurement or settlement without cost | .. | .. | .. |
| Unwind of discount and effect of changes in the discount rate | .. | 25 | 25 |
| Reduction due to held for sale | (1 042) | .. | (1 042) |
| Reduction due to transfer out | (1 139) | .. | (1 139) |
| Closing balance | 1 703 | 450 | 2 153 |

When some or all of the economic benefits required to settle a provision are expected to be received from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The make-good provision is recognised in accordance with the lease agreement over the warehouse facilities. The Department must remove any leasehold improvements from the leased warehouse and restore the premises to its original condition at the end of the lease term.

Onerous contracts: An onerous contract is considered to exist when the unavoidable cost of meeting the contractual obligations exceeds the estimated economic benefits to be received. [\[AASB 137.66\]](#)

Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the estimated economic benefits to be received. This provision represents the present value of the future lease payments that the Department is presently obligated to make in respect of onerous lease contracts under non-cancellable operating lease agreements, less income expected to be earned on the lease including estimated future sublease income. The estimate may vary as a result of changes in utilisation of the leased premises and sublease arrangements where applicable. The unexpired term of the leases range from three to five years.

6. OTHER ASSETS AND LIABILITIES

Guidance – Provisions

Recognition of provisions

A provision shall be recognised when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised. [AASB 137.14-15, 137.23]

In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.

For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Disclosure [AASB 137.84-85]

For each class of provision, an entity shall disclose:

- (a) the carrying amount at the beginning and end of the period;
- (b) additional provisions made in the period, including increases to existing provisions;
- (c) amounts used (that is, incurred and charged against the provision) during the period;
- (d) unused amounts reversed during the period; and
- (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

An entity shall disclose the following for each class of provision:

- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits; and
- (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events.

Reimbursements: In respect of each class of provision the financial statements must disclose the amount of any related reimbursement, stating the amount of any asset recognised for that expected reimbursement. [AASB 137.85(c)]

Exemptions: In extremely rare cases, disclosure of some or all of the information required by AASB 137 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Regardless of how sensitive certain information about provisions may be, this exemption from disclosure does not affect the requirement to recognise provisions that satisfy the criteria for recognition set out in AASB 137. [AASB 137.92]

Contingent liabilities [AASB 137.88]: Where a provision and a contingent liability arise from the same set of circumstances, the disclosures in the financial statements should be made in a way that shows the link between the provision and the contingent liability.

7. HOW WE FINANCED OUR OPERATIONS

Introduction

This section provides information on the sources of finance utilised by the Department during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the Department.

This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Notes 8.1 and 8.3 provide additional, specific financial instrument disclosures.

Structure

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7.1 Borrowings

(\$ thousand)

| Source reference | | 2018 | 2017 |
|---------------------------------------|--|---------------|---------------|
| AASB 101.61 | Current borrowings | | |
| | Bank overdrafts | .. | 5 437 |
| | Finance lease liabilities ^(a) | | |
| Recommendation 12, PAEC Report 115 | Public private partnership (PPP) related finance lease liabilities | 2 643 | 6 670 |
| | Non-PPP related finance lease liabilities | 1 422 | 3 576 |
| | Advances from government ^(b) | 5 118 | 10 287 |
| | Total current borrowings | 9 184 | 25 969 |
| AASB 101.61 | Non-current borrowings | | |
| | Finance lease liabilities | | |
| | PPP related finance lease liabilities | 2 551 | 6 391 |
| | Non-PPP related finance lease liabilities | 1 448 | 3 425 |
| | Advances from government | 195 | 2 057 |
| | Loans from TCV ^{(c)(d)} | 48 696 | 27 705 |
| | Total non-current borrowings | 52 890 | 39 578 |
| | Total borrowings | 62 074 | 65 548 |

Notes:

(a) Secured by the assets leased. Finance leases are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(b) These are unsecured loans which bear no interest. The term of a loan is generally agreed by the Minister at the time the advance was provided.

(c) These are unsecured loans with a weighted average interest rate of 3.55 per cent (2017: 5 per cent)

(d) Note that the TCV loans are for illustration only. Preparers must review the terms of the loan to determine whether they shall be classified as current or non-current loans.

'Borrowings' refer to interest bearing liabilities mainly raised from public borrowings raised through the Treasury Corporation of Victoria, finance leases and other interest bearing arrangements.

Borrowings are classified as financial instruments. All interest bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether the Department has categorised its interest bearing liabilities as either 'financial liabilities designated at fair value through profit or loss', or financial liabilities at 'amortised cost'. The classification depends on the nature and purpose of the interest bearing liabilities. The Department determines the classification of its interest bearing liabilities at initial recognition. [AASB 7.21, 139.43, 139.47; FRD 114B]

Defaults and breaches: During the current and prior year, there were no defaults and breaches of any of the loans. [AASB 7.18]

7. HOW WE FINANCED OUR OPERATIONS

Maturity analysis of borrowings [AASB 7.39(a)]

(\$ thousand)

| | Carrying amount | Nominal amount | Maturity dates | | | | | |
|---------------------------|-----------------|----------------|-------------------|--------------|-----------------|---------------|---------------|----|
| | | | Less than 1 month | 1-3 months | 3 months–1 year | 1–5 years | 5+ years | |
| 2018 | | | | | | | | |
| Bank overdrafts | .. | .. | .. | .. | .. | .. | .. | .. |
| Finance lease liabilities | 8 064 | 9 677 | 3 252 | 1 220 | 407 | 2 399 | 2 399 | |
| Advances from government | 5 314 | 5 630 | 512 | 768 | 4 351 | | | |
| Loans from TCV | 48 696 | 48 696 | .. | .. | .. | 19 478 | 29 218 | |
| Total | 62 074 | 64 003 | 3 764 | 1 988 | 4 758 | 21 877 | 31 617 | |
| 2017 | | | | | | | | |
| Bank overdrafts | 5 437 | 5 437 | 5 437 | .. | .. | .. | .. | |
| Finance lease liabilities | 20 062 | 24 074 | 8 197 | 3 074 | 1 025 | 5 890 | 5 890 | |
| Advances from government | 12 344 | 11 315 | 1 029 | 1 543 | 8 744 | .. | .. | |
| Loans from TCV | 27 705 | 27 705 | .. | .. | .. | 11 082 | 16 623 | |
| Total | 65 548 | 68 531 | 14 663 | 4 617 | 9 769 | 16 972 | 22 513 | |

Guidance – Borrowings

Defaults and breaches: For loans payable recognised at the end of the reporting period, an entity shall disclose:

- details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
- the carrying amount of the loans payable in default at the end of the reporting period; and
- whether the default was remedied, or the terms of the loans payable was renegotiated, before the financial statements was authorised for issue. [AASB 7.18-19]

If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18 of AASB 7, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).

Statutory borrowings: Liabilities that are not contractual (such as liabilities that arise as a result of statutory requirements), are not financial instruments. Therefore, although these liabilities are similar to financial instruments, they are in fact not in the scope of AASB 7. However, entities who wish to apply disclosure requirements similar to those from AASB 7 to such liabilities may do so at their own discretion. [AASB 132.AG12]

Classification of financial instruments: When the balance sheet presentation of a financial instrument differs from the instrument's legal form, it is desirable for an entity to explain in the notes the nature of the financial instrument.

Interest expense

(\$ thousand)

| Source reference | 2018 | 2017 |
|---|--------------|--------------|
| Interest on government loans | 172 | 390 |
| Interest on finance leases ^(a) | 1 139 | 1 195 |
| Other interest expense | 1 055 | 750 |
| Total interest expense | 2 366 | 2 336 |

Note:

(a) Of the balance in 'interest on finance leases', \$XXX [\$xxx in 2017] related to assets contracted under the PPP arrangements.

'Interest expense' includes costs incurred in connection with the borrowing of funds and includes interest on bank overdrafts and short-term and long-term borrowings, amortisation of discounts or premiums relating to borrowings, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

Interest expense is recognised in the period in which it is incurred. [AASB 123.8 and 123.9; FRD 105B]

The Department recognises borrowing costs immediately as an expense, even where they are directly attributable to the acquisition, construction or production of a qualifying asset. [AASB 123.Aus1.0, Aus8.1, FRD 105B]

Guidance – Borrowing costs

Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds and may include:

- (a) interest expense calculated using the effective interest method as described in AASB 139 *Financial Instruments: Recognition and Measurement*;
- (b) finance charges in respect of finance leases recognised in accordance with AASB 117 *Leases*; and
- (c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. [AASB 123.5 and 123.6]

7.2 Leases**7.2.1 Finance lease liabilities (Department as lessee)** [AASB 117.27]

(\$ thousand)

| | Minimum future lease payments ^(a) | | Present value of minimum future lease payments | |
|---|--|---------------|--|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Commissioned PPP related finance lease liabilities payable | | | | |
| Not longer than 1 year | 3 415 | 8 606 | 2 845 | 7 172 |
| Longer than 1 year but not longer than 5 years | 960 | 2 356 | 800 | 1 963 |
| Longer than 5 years | 1 919 | 4 712 | 1 599 | 3 926 |
| Other finance lease liabilities payable ^(b) | | | | |
| Not longer than 1 year | 1 463 | 3 688 | 1 220 | 3 074 |
| Longer than 1 year but not longer than 5 years | 1 440 | 3 534 | 1 200 | 2 945 |
| Longer than 5 years | 480 | 1 178 | 400 | 982 |
| Minimum future lease payments | 9 677 | 24 074 | 8 064 | 20 062 |
| Less future finance charges | (1 613) | (4 012) | - | - |
| Present value of minimum lease payments | 8 064 | 20 062 | 8 064 | 20 062 |
| Included in the financial statements as: | | | | |
| Current borrowings lease liabilities (Note 7.1) | - | - | 4 065 | 10 246 |
| Non-current borrowings lease liabilities (Note 7.1) | - | - | 3 999 | 9 816 |
| Total | - | - | 8 064 | 20 062 |

Notes:

(a) Minimum future lease payments include the aggregate of all base payments and any guaranteed residual.

(b) Other finance lease liabilities include obligations that are recognised on the balance sheet; the future payments related to operating and lease commitments are disclosed in Note 7.5.

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance expense, which is calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement.

Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

Commissioned public private partnerships (PPP): The Department entered into a 20-year PPP arrangement with Project Co Pty Ltd on 21 December 2007. The project was initiated to develop a new information technology and telecommunication system that increases the speed of internet connections in the State of Victoria. Upon completion of construction, the system commenced operation on 1 July 2010. Under the arrangement, the portion of total payments to Project Co Pty Ltd that relates to the Department's right to use the assets is accounted for as a finance lease liability, as disclosed in the table on the next page. In addition, until the end of this PPP arrangement, the Department pays Project Co Pty Ltd for ongoing operation and maintenance of the system (refer to 'public private partnerships' of Note 7.5: 'Commitments for expenditure').

The business unit of the Department, Gene Sciences Victoria also entered into a 30-year PPP with Rapid Processing Ltd on 15 May 2007 to develop a Biotech Research Centre. Upon completion of the construction, the research centre commenced operation on 15 July 2011. Under the arrangement, the portion of the payments to Rapid Processing Ltd that relates to Department's right to use the assets are accounted for as finance leases liabilities, which are disclosed in the following table. In addition, until the end of this PPP arrangement, the Department pays Rapid Processing Ltd for a standard level of service as part of the ongoing operation and maintenance of the centre. [AASB Interpretation 129.6 and 129.7]

7. HOW WE FINANCED OUR OPERATIONS

7.2.2 Finance lease liabilities (Department as lessee)

Other leasing arrangements: The other finance leases relate to equipment with lease terms of six years. The Department has options to purchase the equipment at the conclusion of the lease agreements. Some leases provide for additional rent payments based on changes in a local price index. [AASB 117.31(e)(i) (iii), AASB Interpretation 4.6]

Guidance – Leases

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:

- (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- (b) the arrangement conveys a right to use the asset(s). [AASB Interpretation 4.6]

Contingent rentals: If there are future contingent rentals or future rentals relating to executory costs to be met by the lessees that are payable over the remainder of the lease term, they shall not be included as part of the minimum lease payments.

Classification of land and buildings leases: The amendment of AASB 117 by AASB 2009-5 removes the specific guidance on classifying land as an operating lease so that only the general guidance remains. The previous specific guidance resulted in a number of land and building leases being classified as operating and finance leases respectively. The removal of the specific guidance and assessment of land leases based on the general criteria may result in more land leases being classified as finance leases. [AASB 117.15A]

Sub-leases: For non-cancellable sub-leases, the total of future minimum lease payments expected to be received shall be disclosed. [AASB 117.31(d)]

Disclosure requirements: general description of the lessee's material leasing arrangements, including:

- (a) the basis on which contingent rent payable is determined;
- (b) the existence and terms of renewal or purchase options and escalation clauses; and
- (c) restrictions imposed by lease arrangements such as those concerning dividends, additional debt and further leasing. [AASB 117.31(e)]

Other disclosures: disclosure requirements specified by the relevant standards in relation to property, plant and equipment, intangible assets, impairment of assets, investment property and agriculture apply to the lessor for assets provided under operating leases.

AASB Interpretation 4 *Determining whether an Arrangement Contains a Lease* requires the lessee to treat all payments under operating lease arrangement as lease payments for the purposes of complying with the disclosure requirements of AASB 117, but:

- (a) disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements; and
- (b) state that the disclosed payments also include payments for non-lease elements in the arrangement. [AASB 117.57]

7.3 Cash flow information and balances

Cash and deposits, including cash equivalents, comprise cash on hand and cash at bank, deposits at call and those highly liquid investments with an original maturity of three months or less, which are held for the purpose of meeting short-term cash commitments rather than for investment purposes, and which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as current borrowings on the balance sheet, as indicated in the reconciliation below.

| | | (\$ thousand) | |
|------------------|--|---------------|---------------|
| Source reference | | 2018 | 2017 |
| AASB 107.45 | Total cash and deposits disclosed in the balance sheet | 59 528 | 48 648 |
| | Bank overdraft | .. | (5 437) |
| | Discontinued operations | 4 906 | 1 283 |
| AASB 107.45 | Balance as per cash flow statement | 64 434 | 44 494 |

Due to the State's investment policy and funding arrangements, the Department does not hold a large cash reserve in its bank accounts. Cash received from generation of income is generally paid into the State's bank account ('public account'). Similarly, departmental expenditure, including in the form of cheques drawn for the payments to its suppliers and creditors are made via the public account. The public account remits to the Department the cash required upon presentation of cheques by the Department's suppliers or creditors. [FMA section 13-17]

These funding arrangements often result in the Department having a notional shortfall in the cash at bank required for payment of unrepresented cheques at reporting date. At 30 June 2018, cash at bank included the amount of a notional shortfall for the payment of unrepresented cheques of \$10 000 (2017: \$6 000).

7.3.1 Reconciliation of net result for the period to cash flow from operating activities [AASB 1054.16]

| | | (\$ thousand) | |
|---|--|---------------|---------------|
| | | 2018 | 2017 |
| Net result for the period | | 14 790 | 9 879 |
| Non-cash movements | | | |
| | (Gain)/loss on sale or disposal of non-current assets | (1 527) | (1 259) |
| | (Gain)/loss on revaluation of investment property | 3 485 | (450) |
| | Depreciation and amortisation of non-current assets | 15 099 | 12 157 |
| | Impairment of non-current assets | 2 010 | .. |
| | Resources provided free of charge or for nominal consideration | (103) | (586) |
| | Forgiveness of liabilities | (2 270) | (2 025) |
| | Net (gain)/loss on financial instruments | 5 891 | 3 971 |
| | Other non-cash movements | 356 | (444) |
| Movements included in investing and financing activities | | | |
| | (Gain)/loss on disposal of business (Note 9.3.3 and Note 5.7.2) | .. | .. |
| | Share of associate's (profits)/losses, excluding dividends | (1 055) | (652) |
| | Share of joint venture entities' (profits)/losses, excluding dividends | (231) | (745) |
| Movements in assets and liabilities | | | |
| | decrease/(Increase) in receivables | (22 799) | (3 610) |
| | decrease/(Increase) in inventories | 6 941 | 15 |
| | decrease/(Increase) in other non-financial assets | (1 094) | (285) |
| | Increase/(decrease) in payables | 446 | (176) |
| | Increase/(decrease) in provisions | (4 673) | 2 695 |
| | Increase/(decrease) in other liabilities | (58) | 169 |
| Net cash flows from/(used in) operating activities | | 15 207 | 18 654 |

7.3.2 Non-cash financing and investing activities [AASB 107.43]

Assumption of liabilities: During the reporting period the Department assumed the liabilities of Westlake Centre for Vaccine Research amounting to \$825 000 (2017: \$nil). The assumption of these liabilities is not reflected in the cash flow statement.

Restructuring of administrative arrangements: This administrative restructuring is not reflected in the cash flow statement.

7. HOW WE FINANCED OUR OPERATIONS

Guidance – Cash flow balances and information

Investing and financing transactions that do not require the use of cash or cash equivalents shall be disclosed in the financial statements in a way that provides all the relevant information about these investing and financing activities. [AASB 107.43]

Although not illustrated here, an entity shall disclose, together with commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity, for example, cash related to trusts under management. [AASB 107.48]

| Financing facilities [AASB 107.50] | (\$ thousand) | |
|---|---------------|---------------|
| | 2018 | 2017 |
| Unsecured bank overdraft facility, reviewed annually and payable at call | | |
| Amount used | .. | 5 437 |
| Amount unused | 10 000 | 4 563 |
| Total | 10 000 | 10 000 |
| Unsecured loan facilities with various maturity dates through to 2017-18 and which may be extended by mutual agreement | | |
| Amount used | 53 814 | 39 724 |
| Amount unused | .. | .. |
| Total | 53 814 | 39 724 |

7.4 Trust account balances

Trust account balances relating to trust accounts controlled and/or administered by the Department

(\$ thousand)

| Cash and cash equivalents and investments | 2018 | | | | 2017 | | | |
|---|-----------------------------------|----------------|----------------|------------------------------------|-----------------------------------|----------------|----------------|------------------------------------|
| | Opening balance as at 1 July 2017 | Total receipts | Total payments | Closing balance as at 30 June 2018 | Opening balance as at 1 July 2016 | Total receipts | Total payments | Closing balance as at 30 June 2017 |
| Controlled trusts | | | | | | | | |
| [Title of Trust 1] [include legislative reference and nature and purpose for which Trust 1 was created.] | .. | .. | .. | .. | .. | .. | .. | .. |
| [Title of Trust 2] [include legislative reference and nature and purpose for which Trust 2 was created.] | .. | .. | .. | .. | .. | .. | .. | .. |
| Total controlled trusts | .. | .. | .. | .. | .. | .. | .. | .. |
| Administered trusts | | | | | | | | |
| [Title of Trust 3] [include legislative reference and nature and purpose for which Trust 3 was created.] | .. | .. | .. | .. | .. | .. | .. | .. |
| [Title of Trust 4] [include legislative reference and nature and purpose for which Trust 4 was created.] | .. | .. | .. | .. | .. | .. | .. | .. |
| Total administered trusts | .. | .. | .. | .. | .. | .. | .. | .. |

This table is based on the Auditor General's recommendation in report Portfolio Departments and Associated Entities: Results of the 2011–2012 Audits.

Third party funds under management

The Department has responsibility for transactions and balances relating to trust funds held on behalf of third parties external to the Department. Funds managed on behalf of third parties are not recognised in the Department's financial statements as they are managed on a fiduciary and custodial basis, and therefore are not controlled by the Department.

The Department maintains three such trusts: the Biological Disaster Fund; the e-Technology Fund; and the International Network Association Fund. The Biological Disaster fund was transferred to the Department from the Department of Natural Resources under the *Administrative Arrangements Order [No.xxx] 2017*.

Any earnings on the funds held pending distribution are also applied to the trust funds under management as appropriate.

Biological Disaster Fund

The Biological Disaster Fund account is held in trust for the beneficiaries, which include the individuals and communities affected by the 2010 biological disaster. These funds are not controlled for the benefit of the Victorian Government. Accordingly, the fund is not presented as assets or income of the Department.

Establishment of the Biological Disaster Fund

More than 11 towns and communities were devastated by the biological disaster in May 2010. In June 2009, the Victorian Government approved the establishment of the Biological Disaster Fund under section 19(1) of the *Financial Management Act 1994*.

The purpose of this trust fund is for the receipt of donations and other contributions, and their disbursement to assist individuals and communities in towns and rural areas affected by the biological disaster.

Monies from the fund are distributed to individuals and communities through the Department at the direction of an independent advisory panel. Members of the advisory panel were appointed by the Victorian Government. The advisory panel was required to set rules and criteria for the making of payments from the trust fund. The advisory panel's responsibilities are to guide, account for and report on the disbursement of monies from the trust fund.

7. HOW WE FINANCED OUR OPERATIONS

| Biological Disaster Fund | | (\$ thousand) | |
|---|--|----------------------|--------------|
| <i>Source reference</i> | | 2018 | 2017 |
| Based on recommendation 6 in PAEC Report 102 – Part One | Cash at bank | 113.1 | 249.2 |
| | Less amounts pending payments | (1.5) | (10.1) |
| | Total funds under management | 111.6 | 239.1 |
| | Donations and other contributions ^(a) | 142.1 | 500.1 |
| | Interest earned ^(b) | 3.7 | 10.9 |
| | Total receipts | 145.8 | 511.0 |
| | Payments to businesses | 6.6 | 23 |
| | Payments to community groups | 4.7 | 34.8 |
| | Payments to individuals | 10.6 | 86.2 |
| | Payments on state-owned assets | 12.3 | 127.9 |
| | Total payments | 34.2 | 271.9 |
| | Balance carried forward ^(c) | 111.6 | 239.1 |

Notes:

- (a) Contributions, inter alia, include funds provided by the Victorian Government, Commonwealth, other Australian and international jurisdictions, as well as the general public, for the purpose described above.
- (b) The investment, pursuant to section 21 of the Financial Management Act 1994, of any monies from the biological disaster fund has been invested as allowed under the Trustee Act 1958. Interest earned is credited to the trust account.
- (c) [This expanded disclosure is only necessary for third party funds under management that are of significance in regards to public interest.]

| Other third party funds under management | | (\$ million) | |
|---|--|---------------------|-------------|
| | | 2018 | 2017 |
| e-Technology Fund ^(a) | | 21.2 | 46.1 |
| International Network Association Fund ^(b) | | 1.7 | 1.5 |
| Total funds under management | | 22.9 | 47.6 |

Notes:

- (a) The e-Technology Fund was established by the Victorian Government in 2009 in partnership with the Commonwealth Government to receive contributions and disburse monies to businesses, non-government organisations and registered individuals compliant with the international agreement on e-Technology signed by Australia in February 2009.
- (b) The International Network Association Fund was established in 2011 in partnership with the International Association of Networks. The Victorian Government manages, under trust, donations and bequests from members of the International Association of Networks for disbursement to eligible beneficiaries.

Guidance – Third party funds under management

Third party funds under management are funds that are collected and managed by a government entity acting as an 'agent', on behalf of the 'principal'. These funds are usually not available for general use by the 'agent' entity, either due to legislative restrictions over the funds or various other circumstances that impose restrictions on the use of the funds.

Determining whether an entity is acting as a principal or as an agent

Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances. Guidance is provided below.

Principal [AASB 118.App 21]

An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate this include:

- the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, e.g. by being responsible for the acceptability of the products or services ordered or purchased by the customer;
- the entity has inventory risk before or after the customer order, during shipping or on return;
- the entity has latitude in establishing prices, either directly or indirectly, e.g. by providing additional goods or services; and
- the entity bears the customer's credit risk for the amount receivable from the customer.

Agent [AASB 118.App21]

An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature that indicates this is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

Information to be disclosed [AASB 107.48]

An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

Guidance – Third party funds under management (continued)**Natural disasters** [PAEC Report 102 Part One recommendation 6]

Departments are required to demonstrate high standards of transparency and accountability when reporting on the effectiveness of how funding allocated to natural disaster relief was managed. It is expected that this note disclosure include the level of funding spent on individuals, state-owned assets, businesses and community groups affected as a result of a natural disaster.

Income and payments from trust funds or funds held outside public account

Income from trust funds or funds held outside the public account may ultimately be used for a broad range of purposes and may not be readily determinable at the time of receipt and when the income is recognised.

In general, payments out of controlled funds outside the public account are typically for the delivery of outputs or for the acquisition of assets, whereas payments out of administered funds are typically for payments made on behalf of the State. [recommendations 30 and 32, PAEC Report on the 2015-16 Budget Estimates]

7.5 Commitments for expenditure

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are recorded below at their nominal value and inclusive of GST. Where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet. [AASB 116.74(c), AASB 117.35(a), AASB 138.122(e), AASB 12.23(a)]

7.5.1 Total commitments payable ^(a)

(\$ thousand)

| Source reference | Nominal amounts | Less than | 1–5 | 5+ | Total |
|------------------------------|--|---------------|--------------|---------------|---------------|
| [AASB 117.35(a)] | 2018 | 1 year | years | years | |
| | PPP commitments (See 7.5.2) | 5 600 | 5 190 | 18 036 | 28 826 |
| AASB 116.74(c) | Capital expenditure commitments payable | 4 782 | 74 | .. | 4 856 |
| | Operating and lease commitments payable ^(b) | .. | 31 | .. | 31 |
| AASB 138.122(e) | Intangible assets commitments payable | 23 | .. | 20 | 43 |
| AASB 12.23(b), B19(a)(ii) | Share of joint ventures' capital commitments | .. | 8 | 13 | 21 |
| | Other commitments payable | 56 | 112 | .. | 168 |
| | Total commitments (inclusive of GST) | 10 461 | 5 415 | 18 069 | 33 945 |
| | Less GST recoverable | | | | (2 586) |
| | Total commitments (exclusive of GST) | | | | 31 359 |
| [AASB 117.35(a)] | 2017 | | | | |
| | PPP commitments (7.5.2) | 17 230 | 14 440 | 11 162 | 42 832 |
| AASB 116.74(c) | Capital expenditure commitments payable | 5 812 | 198 | .. | 6 010 |
| | Operating and lease commitments payable | 28 | .. | .. | 28 |
| AASB 138.122(e) | Intangible assets commitments payable | 15 | 5 | .. | 20 |
| AASB 12.23(b), B19(a)(ii) | Share of joint ventures' capital commitments | .. | 8 | 13 | 21 |
| | Other commitments payable | .. | .. | .. | .. |
| | Total commitments (inclusive of GST) | 23 085 | 4 651 | 11 175 | 48 911 |
| | Less GST recoverable from the Australian Tax Office | | | | (3 284) |
| | Total commitments (exclusive of GST) | | | | 45 627 |

Notes:

(a) Future finance lease and non-cancellable operating lease payments are recognised on the balance sheet.

(b) Operating lease commitments relate to warehouse facilities with lease terms between three and seven years. These contracts do not allow the Department to purchase the facilities after the lease ends, but the Department can renew the lease for a further three years.

7. HOW WE FINANCED OUR OPERATIONS

7.5.2 PPP commitments

The Department sometimes enters into arrangements with private sector participants to design and construct or upgrade assets used to provide public services. These arrangements usually include the provision of operational and maintenance services for a specified period of time. These arrangements are often referred to as either PPPs or service concession arrangements (SCAs).

SCAs usually take one of two main forms. In the more common form, the Department pays the operator over the arrangement period, subject to specified performance criteria being met. At the date of commitment to the principal provisions of the arrangement, these estimated periodic payments are allocated between a component related to the design and construction or upgrading of the asset and components related to the ongoing operation and maintenance of the asset. The former component is accounted for as a lease payment in accordance with the leases accounting policy. The remaining components are accounted for as commitments for operating costs, which are expensed in the comprehensive operating statement as they are incurred. The other, less common, form of SCA is one in which the Department grants to an operator, for a specified period of time, the right to collect fees from users of the SCA asset, in return for which the operator constructs the asset and has the obligation to supply agreed upon services, including maintenance of the asset for the period of the concession. These private sector entities typically lease land, and sometimes state works, from the Department and construct infrastructure. At the end of the concession period, the land and state works, together with the constructed facilities, will be returned to the Department.

There is currently no authoritative accounting guidance applicable to grantors (the Department) on the recognition and measurement of the right of the State to receive assets from such concession arrangements. Due to the lack of such guidance, there has been no change to existing policy and those assets are not currently recognised.

PPPs commitments ^{(a)(b)}

(\$ thousand)

| | 2018 | | | 2017 | | |
|---|------------------------|-------------------|---------------|------------------------|-------------------|---------------|
| | Minimum lease payments | Other commitments | Commitments | Minimum lease payments | Other commitments | Commitments |
| | Discounted value | Present value | Nominal value | Discounted value | Present value | Nominal value |
| Commissioned PPPs ^{(c)(d)} | | | | | | |
| IT&T system development ^(e) | | 4 605 | 5 334 | - | 11 449 | 13 737 |
| Biotech Research Centre ^(e) | | 3 069 | 3 556 | - | 7 632 | 9 159 |
| Sub-total | | 7 674 | 8 890 | - | 19 081 | 22 896 |
| Uncommissioned PPPs ^{(f)(g)(h)(i)(j)} | | | | | | |
| IT training schools ⁽ⁱ⁾ | 3 329 | 1 569 | 11 901 | 3 329 | 1 458 | 11 901 |
| Climate Change Research Centre ^(k) | 1 685 | 579 | 8 035 | 1 685 | 534 | 8 035 |
| Sub-total | - | 2 148 | 19 936 | - | 1 992 | 19 936 |
| Total commitments for PPPs | | 9 822 | 28 826 | - | 21 073 | 42 832 |

Notes:

- (a) The present values of the minimum lease payments for commissioned PPPs are recognised on the balance sheet (not disclosed as commitments).
- (b) The discounted values of the minimum lease payments for uncommissioned PPPs have been discounted to the expected dates of commissioning and the present values of other commitments have been discounted to 30 June of the respective financial years. After adjusting for GST, the discounted values of minimum lease payments reflect the expected impact on the balance sheet when the PPPs are commissioned.
- (c) The year on year reduction in the nominal amounts of the other commitments reflects the payments made.
- (d) The year on year reduction in the present values of other commitments reflects payments, offset by the impact of one fewer year used for discounting.
- (e) The table discloses only other operating and maintenance commitments for the IT&T system project and the Biotech Research Centre project.
- (f) The discounted values of the minimum lease payments have not been totalled for the uncommissioned PPPs due to individual PPPs having different expected dates of commissioning.
- (g) The year on year increase in the present values of the other commitments for uncommissioned projects is due to one less year used for discounting.
- (h) The total commitments will not equal the sum of the minimum lease payments and other commitments because they are discounted, whereas total commitments are at nominal value.
- (i) On 16 September 2017, the Department entered into a contract with IT Solutions Ltd to construct and maintain new IT training schools. The contract term is 30 years.
- (j) The minimum lease payments of uncommissioned PPPs include the government capital contributions. If the government capital contributions are made upfront, the amount represents the nominal value of the payments that will be made when the project is commissioned.
- (k) On 1 March 2018, the Department entered into a contract with Plenary Environment Ltd to construct and maintain a Climate Change Research Centre. The contract term is 15 years.

7.5.3 Commitments other than PPPs

(\$ thousand)

| | 2018 Nominal value (incl. GST) | 2017 Nominal value (incl. GST) |
|---|--------------------------------------|--------------------------------------|
| Capital expenditure commitments: Plant, equipment and vehicles | 4 856 | 6 010 |
| Intangible asset commitments: Patent | 43 | 20 |
| Share of joint ventures' capital commitments: Plant, equipment and vehicles | 21 | 21 |
| Operating and lease commitments: Warehouse facilities | 31 | 28 |
| Other commitments: Outsourcing | 168 | - |
| Total commitments other than PPPs | 5 119 | 6 079 |

Guidance – Commitments for expenditure**Commitments**

A commitment is an intention to commit agency resources (usually funds) to a future event that is:

- normally supported by a contract;
- quantifiable and measurable;
- extending or may extend over multiple reporting periods; and
- binding parties to performance conditions.

Indicators that may confirm the existence of a commitment include:

- execution of a contract between parties for delivery of goods and/or services;
- potential loss to one of the contracted parties if contractual obligations are breached; or
- payment of compensation may result in the event of default.

When commitments are fulfilled, they are crystallised as liabilities. Once the liabilities are recognised in the financial statements, the expenditures are no longer required to be disclosed as commitments.

Extent of disclosure

Where no specific AASB requirements apply, the extent of disclosure to meet the requirements in AASB 101 *Presentation of Financial Statements* is based on professional judgement with a view to providing relevant information to users of the financial statements.

Some factors to consider when deciding on the appropriate level of disclosure under AASB 101 include the following:

- whether the commitment is significant to the entity's operations;
- whether the commitment is required to maintain key assets of the company;
- whether it is practical for management to cancel the commitments; and
- the terms and conditions in the agreement with respect to cancellability.

Based on the facts and current circumstances, if the entity has no intention of cancelling the contract and expects to fulfil the contract in the future, the entity should disclose the full contractual agreement rather than just the minimum penalty payments in the contract. However, if the entity expects to terminate the contract prematurely and must pay the minimum penalty, the disclosure of the minimum penalty may be more relevant and useful to users of financial statements.

Contracted capital commitments

Capital commitments and other expenditure commitments contracted for as at the end of the reporting period do not require disclosure where the commitments have been recognised as liabilities in the balance sheet.

GST

The purpose of the commitment note disclosure is to inform users of the commitments for payments from a cash flow perspective and consequently includes GST as appropriate.

Where the invoices for commitment related payments separately identify a financing component, GST is not required to be added to this component. However, where invoices do not separate the finance component, GST should be included on all components for the purposes of the commitment disclosure.

Aggregation

In table 7.5.3, commitments relating to 'intangible assets' and 'Department's share of joint ventures' capital expenditure are immaterial in the Annual Financial Report for the State of Victoria, and are therefore aggregated into 'total other commitments payable'. If these groups are also immaterial for departments, then they could also be aggregated into 'total other commitments payable' and deleted from the table format as shown on page xx

Guidance – Commitments for expenditure (continued)**Specific guidance for PPPs**

Commissioned and uncommissioned PPPs: Commissioned PPPs are construction projects that are completed as per government's requirements and are ready for operation, which generally occurs from commercial acceptance.

Uncommissioned PPPs are construction projects that are yet to commence or are still in progress.

Commissioned and uncommissioned PPPs need to be disclosed separately. For commissioned PPPs, the expenditure component relating to capital/finance is recognised as a 'finance lease liability' on the balance sheet, and only the future service related component is recognised as an 'other commitment' and disclosed in the commitment note.

In contrast, for uncommissioned PPPs, both the capital finance component (termed as 'minimum lease payment') and the 'other commitments' component are disclosed in the commitments note.

Outstanding PPP contractual payments: The purpose of the commitment note is to provide users with discounted or present value information about outstanding PPP contractual payments for individual projects that are not recognised as liabilities on the balance sheet. Contractual payment streams often comprise several components and are paid as a bundle through quarterly service payments (QSPs). Typically QSPs may include payments related to finance leases, operating and maintenance contracts, asset upgrades and contingent rentals.

Where a contract and QSPs may relate to several like assets, e.g. upgrade and maintenance of several schools, disclosure would not be expected at the individual school level. Confirmation of individual PPP projects for separate disclosure, either commissioned or uncommissioned, that are controlled by the entity at the reporting and/or comparative reporting date, should be confirmed with the relevant Commercial Advisory Services team of the Department of Treasury and Finance (DTF).

Contingent rents: The estimated QSP cash flows attributable to the PPPs shall not be adjusted for contingent rents that are not fixed in amount, but based on the future amount of a factor other than with the passage of time (e.g. percentage of future sales, amount of future use, future price amount of future use, future price indices or future market rates of interest). Rather, contingent rents shall be charged as expenses in the periods in which they are incurred.

Discount dates: In calculating the discounted value of the 'minimum lease payments' of commitments for uncommissioned (still under construction) PPPs, the payments shall be discounted to the expected date of commissioning.

In calculating the present value of 'other commitments' associated with both commissioned and uncommissioned PPPs, the payments shall be discounted to the 30 June of the reporting period and the comparative period respectively.

As uncommissioned minimum lease payment projects will be discounted to the expected commissioning date, the reference is to 'discounted values' rather than 'present values', as the latter implies discounting to balance sheet date.

Discounted value of PPP minimum lease payment commitments: The discounted values of the 'minimum lease payments' are only disclosed as a commitment for uncommissioned PPPs, as the 'minimum lease payments' for commissioned PPPs will be recognised as liabilities on the balance sheet, and no longer classified as commitments.

For uncommissioned projects, the discounted values of the 'minimum lease payment' commitments are derived by proxy, being the nominal sum of the total capital costs and any other allowable capitalised expenses, including capitalised interest, during the development and construction phase of a project as reflected in the contracted financial model. This nominal sum is deemed as the fair value of the leased asset for the purpose of AASB 117 *Leases* and will equate to the discounted values of the 'minimum lease payment' commitments.

Government capital contributions: The government may make a capital contribution in a PPP arrangement. The government capital contribution should be included in the minimum lease payments of uncommissioned PPPs. The minimum lease payments are the sum of the government capital contribution and the present value of future cash flows relating to capital expenditures. In general if the government capital contribution is made upfront, the amount represents the nominal value of the payments that will be made when the project is commissioned.

Present values of PPP other commitments: For the disclosure of both commissioned and uncommissioned present values of other commitments, DTF will provide further guidance on the appropriate discount rate to be applied separately from the Model.

GST for PPPs: Where there is evidence of invoices for the QSPs that separately identify the financing components, GST is not required to be added in respect of the financing component. However, where the invoices do not separately identify the financing component, the total QSP amounts for the commitment disclosure should be inclusive of GST.

7.6 Assets pledged as security

The Department has secured the leased assets against the non-PPP related finance lease liabilities. In the event of default, the rights to the leased assets will revert to the lessor.

Guidance – Assets pledged as security

The financial statements shall disclose the following for assets pledged as security:

- (a) the carrying amount of inventories pledged as security for liabilities; [AASB 102.36(h)]
- (b) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; [AASB 138.122(d)]
- (c) the carrying amount of the property, plant and equipment pledged and the related existence and amounts of restrictions on title; [AASB 116.74(a)]
- (d) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal; and [AASB 140.75(g)]
- (e) the carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities and any material terms and conditions relating to assets pledged as collateral. [AASB 7.14]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Introduction

The Department of Technology (the Department) is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the Department related mainly to fair value determination.

Structure

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8.1 Financial instruments specific disclosures

Introduction

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the Department's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example taxes, fines and penalties). Such assets and liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*.

Guarantees issued on behalf of the Department are financial instruments because, although authorised under statute, terms and conditions for each financial guarantee may vary and are subject to an agreement.

Categories of financial instruments

Loans and receivables and cash are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method (and for assets, less any impairment). The Department recognises the following assets in this category:

- cash and deposits;
- receivables (excluding statutory receivables);
- term deposits; and
- certain debt securities.

Available-for-sale financial instrument assets are those designated as available-for-sale or not classified in any other category of financial instrument asset. Such assets are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value with gains and losses arising from changes in fair value, recognised in 'Other economic flows – other comprehensive income' until the investment is disposed. Movements resulting from impairment and foreign currency changes are recognised in the net result as other economic flows. On disposal, the cumulative gain or loss previously recognised in 'Other economic flows – other comprehensive income' is transferred to other economic flows in the net result. The Department recognises investments in equities and managed investment schemes in this category.

Held to maturity financial assets: If the Department has the positive intent and ability to hold nominated investments to maturity, then such financial assets may be classified as held to maturity. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

The Department makes limited use of this classification because any sale or reclassification of more than an insignificant amount of held to maturity investments not close to their maturity, would result in the whole category being reclassified as available-for-sale. The held to maturity category includes term deposits and debt securities for which the Department intends to hold to maturity.

Financial assets and liabilities at fair value through net result are categorised as such at trade date, or if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit or loss on the basis that the financial assets form part of a group of financial assets that are managed based on their fair values and have their performance evaluated in accordance with documented risk management and investment strategies. Financial instruments at fair value through net result are initially measured at fair value; attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows. The Department recognises debt securities that are held for trading in this category.

Financial liabilities at amortised cost are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest bearing liability, using the effective interest rate method. The Department recognises the following liabilities in this category:

- payables (excluding statutory payables); and
- borrowings (including finance lease liabilities).

Derivative financial instruments are classified as held for trading financial assets and liabilities. They are initially recognised at fair value on the date on which a derivative contract is entered into. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives after initial recognition are recognised in the consolidated comprehensive operating statement as an 'other economic flow' included in the net result.

Offsetting financial instruments: Financial instrument assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Department concerned has a legal right to offset the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Some master netting arrangements do not result in an offset of balance sheet assets and liabilities. Where the Department does not have a legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default, insolvency or bankruptcy, they are reported on a gross basis.

Derecognition of financial assets: A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Department retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Department has transferred its rights to receive cash flows from the asset and either:
 - has transferred substantially all the risks and rewards of the asset; or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Department has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the Department's continuing involvement in the asset.

Impairment of financial assets: At the end of each reporting period, the Department assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

The allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. [AASB 139.58 70 AASB 7.B5(f)] In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

Reclassification of financial instruments: Subsequent to initial recognition and under rare circumstances, non-derivative financial instruments assets that have not been designated at fair value through profit or loss upon recognition, may be reclassified out of the fair value through profit or loss category, if they are no longer held for the purpose of selling or repurchasing in the near term.

Financial instrument assets that meet the definition of loans and receivables may be reclassified out of the fair value through profit and loss category into the loans and receivables category, where they would have met the definition of loans and receivables had they not been required to be classified as fair value through profit and loss. In these cases, the financial instrument assets may be reclassified out of the fair value through profit and loss category, if there is the intention and ability to hold them for the foreseeable future or until maturity.

Available-for-sale financial instrument assets that meet the definition of loans and receivables may be reclassified into the loans and receivables category if there is the intention and ability to hold them for the foreseeable future or until maturity.

Derecognition of financial liabilities: A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an 'other economic flow' in the comprehensive operating statement.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Guidance – Financial instruments

An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

AASB 7 requires that an entity discloses information used by key management personnel to measure and manage risk. An entity shall decide, in light of its circumstances, how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture, without combining information with different characteristics.

The minimum disclosures set out in this note of the Model are provided by way of example only. They do not necessarily represent the only disclosures that may be appropriate for particular financial instruments and do not cover all financial instruments that may be used in practice, or importantly, reflect the manner in which an entity reports internally to its key management personnel:

- (a) an estimate of its financial effect;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

Entities should exercise judgement in determining their own disclosure on financial instruments, and use the Model only as a guide to interpreting the disclosure requirements of AASB 7. Some sections and/or tables in Note 8.1 may not be relevant to all entities and therefore should not be included, e.g. tables with zero balances should be omitted.

Statutory receivables and payables [AASB 132.AG12]

Financial assets or financial liabilities that are not contractual (such as receivables or payables that arise as a result of statutory requirements), are not financial instruments. Therefore, these financial assets or financial liabilities are not in that the scope of AASB 7. However, entities wish to apply disclosure requirements from AASB 7 to such financial assets or financial liabilities may do so at their own discretion. For example, a department should exclude all statutory receivables from the Victorian Government including receivable balances related to:

- the consolidated fund – State Administration Unit (SAU) SRIMS account codes 45000, 47000 and 48xxx; and
- all appropriated funding.

Reclassification of financial assets [AASB 7.12]

If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available, or because the 'two preceding annual reporting periods' have passed in relation to a financial asset that could previously not be classified as held to maturity, where an entity reclassifies a financial asset as one measured at cost or amortised cost rather than at fair value, it shall disclose the reason for the reclassification.

Master netting or similar arrangements [AASB 7.13]

An entity might further restrict its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions.

It should be noted that some master netting arrangements do not result in an offset of balance sheet assets and liabilities where they are settled on a gross basis. However, the credit risk associated with favourable contracts is reduced with a master netting arrangement to the extent that if a counterparty failed to meet its obligations in accordance with the agreed terms, all amounts with the counterparty are terminated and settled on a net basis.

In other instances, the entity enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting arrangements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, and the termination value is assessed and only a single net amount is payable in settlement of all transactions.

In instances where the entity can settle amounts in a manner such that the outcome is in effect equivalent to the net settlement, the entity will meet the net settlement criteria. This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and will process receivables and payables in a single settlement process or cycle.

To the extent that these arrangements meet the criteria for offsetting in the statement of financial position, they are reported on a net basis.

Where the entity does not have a legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events, they are reported on a gross basis.

Guidance – Financial instruments (continued)

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

| | <i>Gross amounts of financial instruments in the balance sheet</i> | <i>Amounts offset when determining net amounts in balance sheet</i> | <i>Net amounts of financial instruments in the balance sheet</i> | <i>Related financial instruments that are not offset</i> | <i>Net amount</i> |
|---|--|---|--|--|-------------------|
| 30 June 2018 ^(a) | | | | | |
| Financial assets | | | | | |
| Other investments, including derivatives | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] |
| Interest rate swaps used for hedging | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] |
| Forward exchange contracts used for hedging | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] |
| Other forward exchange contracts | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] |
| Financial liabilities | | | | | |
| Trade and other payables | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] |
| Interest rate swaps used for hedging | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] |
| Forward exchange contracts used for hedging | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] | [\$XXX] |

Note:

(a) Comparatives will be required for disclosure.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

8.1.1 Financial instruments: Categorisation [AASB 7.8]

(\$ thousand)

| 2018 | Contractual financial assets/liabilities designated at fair value through profit/loss | Contractual financial assets/liabilities held-for-trading at fair value through profit/loss | Contractual financial assets – loans and receivables and cash | Contractual financial assets – available-for-sale | Contractual financial liabilities at amortised cost | Total |
|---|---|---|---|---|---|---------------|
| Contractual financial assets | | | | | | |
| Cash and deposits | .. | .. | 59 528 | .. | .. | 59 528 |
| Receivables ^(a) | | | | | | |
| Finance lease receivables | .. | .. | 581 | .. | .. | 581 |
| Sale of goods and services | .. | .. | 1 253 | .. | .. | 1 253 |
| Loans to third parties | .. | .. | 146 | .. | .. | 146 |
| Accrued investment income | .. | .. | 1 864 | .. | .. | 1 864 |
| Other receivables | .. | .. | 334 | .. | .. | 334 |
| Investments and other contractual financial assets | .. | .. | .. | .. | .. | .. |
| Equities and managed investment schemes | .. | .. | .. | 2 065 | .. | 2 065 |
| Term deposits | .. | .. | 2 890 | .. | .. | 2 890 |
| Debt securities | 3 823 | .. | 5 198 | .. | .. | 9 021 |
| Total contractual financial assets | 3 823 | .. | 71 794 | 2 065 | .. | 77 682 |
| Contractual financial liabilities | | | | | | |
| Payables ^(a) | | | | | | |
| Supplies and services | .. | .. | .. | .. | 4 466 | 4 466 |
| Amounts payable to government and agencies | .. | .. | .. | .. | 10 890 | 10 890 |
| Other payables | .. | .. | .. | .. | 817 | 817 |
| Borrowings | | | | | | |
| Bank overdrafts | .. | .. | .. | .. | .. | .. |
| Finance lease liabilities | .. | .. | .. | .. | 8 064 | 8 064 |
| Advances from government | .. | .. | .. | .. | 5 314 | 5 314 |
| Loans from TCV | .. | .. | .. | .. | 48 696 | 48 696 |
| Total contractual financial liabilities | .. | .. | .. | .. | 78 247 | 78 247 |

Note:

(a) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government and GST input tax credit recoverable and taxes payable). [AASB 132.AG12]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

(\$ thousand)

| 2017 | Contractual financial assets/liabilities designated at fair value through profit/loss | Contractual financial assets/liabilities held-for-trading at fair value through profit/loss | Contractual financial assets – loans and receivables and cash | Contractual financial assets – available-for-sale | Contractual financial liabilities at amortised cost | Total |
|---|---|---|--|---|---|---------------|
| Contractual financial assets | | | | | | |
| Cash and deposits | .. | .. | 48 648 | .. | .. | 48 648 |
| Receivables ^(a) | | | | | | |
| Finance lease receivables | .. | .. | 1 231 | .. | .. | 1 231 |
| Sale of goods and services | .. | .. | 985 | .. | .. | 985 |
| Loans to third parties | .. | .. | 485 | .. | .. | 485 |
| Accrued investment income | .. | .. | 1 058 | .. | .. | 1 058 |
| Other receivables | .. | .. | 438 | .. | .. | 438 |
| Investments and other contractual financial assets | | | | | | |
| Equities and managed investment schemes | .. | .. | .. | 4 179 | .. | 4 179 |
| Term deposits | .. | .. | 5 130 | .. | .. | 5 130 |
| Debt securities | 1 000 | .. | 6 422 | .. | .. | 7 422 |
| Total contractual financial assets | 1 000 | .. | 64 397 | 4 179 | .. | 69 576 |
| Contractual financial liabilities | | | | | | |
| Payables ^(a) | | | | | | |
| Supplies and services | .. | .. | .. | .. | 3 430 | 3 430 |
| Amounts payable to government and agencies | .. | .. | .. | .. | 1 796 | 1 796 |
| Other payables | .. | .. | .. | .. | 8 925 | 8 925 |
| Borrowings | | | | | | |
| Bank overdrafts | .. | .. | .. | .. | 5 437 | 5 437 |
| Finance lease liabilities | .. | .. | .. | .. | 20 062 | 20 062 |
| Advances from government | .. | .. | .. | .. | 12 344 | 12 344 |
| Loans from TCV | .. | .. | .. | .. | 27 705 | 27 705 |
| Total contractual financial liabilities | .. | .. | .. | .. | 79 699 | 79 699 |

Note:

(a) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government and GST input tax credit recoverable and taxes payable). [AASB 132.AG12]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

8.1.2 Financial instruments – Net holding gain/(loss) on financial instruments by category

(\$ thousand)

| 2018 | Net holding gain/(loss) | Total interest income/(expense) | Fee income/ (expense) | Impairment loss | Total |
|--|-------------------------|---------------------------------|-----------------------|-----------------|--------------|
| Contractual financial assets | | | | | |
| Financial assets designated at fair value through profit/loss | 65 | 1 689 | .. | .. | 1 754 |
| Financial assets – loans and receivables | (396) | 2 175 | .. | (380) | 1 399 |
| Financial assets available-for-sale recognised in net result | .. | .. | .. | (920) | (920) |
| Financial assets available-for-sale recognised in other comprehensive result | (1 523) | .. | .. | .. | (1 523) |
| Total contractual financial assets | (1 854) | 3 864 | .. | (1 300) | 710 |
| Contractual financial liabilities | | | | | |
| Financial liabilities at amortised cost | 2 270 | (1 789) | 307 | .. | 788 |
| Financial liabilities designated at fair value through profit/loss | .. | .. | .. | .. | .. |
| Total contractual financial liabilities | 2 270 | (1 789) | 307 | .. | 788 |
| 2017 | | | | | |
| Contractual financial assets | | | | | |
| Financial assets designated at fair value through profit/loss | 400 | 1 262 | .. | .. | 1 662 |
| Financial assets – loans and receivables | 210 | 1 635 | .. | (276) | 1 569 |
| Financial assets available-for-sale recognised in net result | .. | .. | .. | .. | .. |
| Financial assets available-for-sale recognised in other comprehensive result | 1 146 | .. | .. | .. | 1 146 |
| Total contractual financial assets | 1 756 | 2 897 | .. | (276) | 4 377 |
| Contractual financial liabilities | | | | | |
| Financial liabilities at amortised cost | 2 025 | (1 904) | 144 | .. | 265 |
| Financial liabilities designated at fair value through profit/loss | .. | .. | .. | .. | .. |
| Total contractual financial liabilities | 2 025 | (1 904) | 144 | .. | 265 |

[Note: Amounts disclosed in this table exclude holding gains and losses related to statutory financial assets and liabilities.]

The net holding gains or losses disclosed above are determined as follows:

- for cash and cash equivalents, loans or receivables and available-for-sale financial assets, the net gain or loss is calculated by taking the movement in the fair value of the asset, the interest income, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result;
- for financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost; and
- for financial asset and liabilities that are held for trading or designated at fair value through profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial asset or liability.

Guidance – Categorisation of financial instruments**Categories of financial instruments**

An entity shall disclose the carrying amounts of the following categories either in the balance sheet or in the notes:

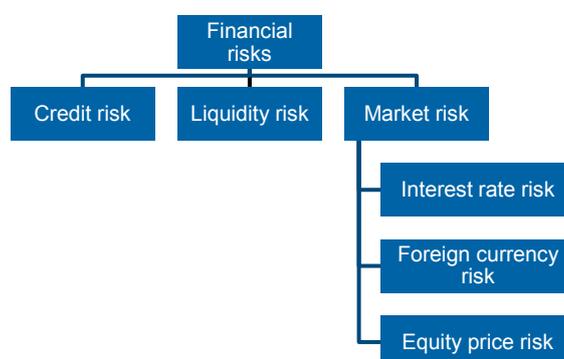
- (a) financial instruments (contractual financial assets or financial liabilities) at fair value through profit or loss, showing separately:
 - (i) those designated as such upon initial recognition; and
 - (ii) those classified as held for trading in accordance with AASB 139;
- (b) held to maturity investments; [AASB 139.52,FRD 114B]
(due to the risk of tainting and for consistency with the Government’s requirement to comply with AASB 1049, this category is only used in rare and exceptional circumstances);
- (c) loans and receivables;
- (d) available-for-sale financial assets; and
- (e) financial liabilities measured at amortised cost.

Entities in the general government sector and public non-financial corporations sector can refer to FRD 114B for further guidance on the categorisation of financial instruments (FRD 116A for entities in the public financial corporations sector).

In relation to the illustrative example in Table 8.1.1, for departments, all trust balances in the Public Account should be included in the category ‘cash and deposit’.

Capital management objectives [AASB 101.Aus136.2]

Not-for-profit entities are exempt from the disclosure requirements of AASB 101.134 136, which would otherwise require an entity to disclose information that enables users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital.

8.1.3 Financial risk management objectives and policies [AASB 7.21]

As a whole, the Department’s financial risk management program seeks to manage these risks and the associated volatility of its financial performance.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument above are disclosed in Note 8.3 to the financial statements.

The main purpose in holding financial instruments is to prudentially manage the Department’s financial risks within the government policy parameters. [AASB 7.33(a), (b)]

The Department’s main financial risks include credit risk, liquidity risk, interest rate risk, foreign currency risk and equity price risk. The Department manages these financial risks in accordance with its financial risk management policy.

The Department uses different methods to measure and manage the different risks to which it is exposed. Primary responsibility for the identification and management of financial risks rests with the Accountable Officer of the Department. [SD 2.3.1]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Guidance – Financial risk management objectives and policies and nature and extent of disclosures AASB 7.21.31]

In accordance with paragraph 117 of AASB 101 *Presentation of Financial Statements*, an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

AASB 7 requires comprehensive disclosure requirements for financial instruments including, but not limited to, the following:

- (a) the measurement basis (bases) and the criteria used to determine classification for different types of financial instruments;
- (b) the movements in fair value for financial instruments classified as fair value through profit or loss;
- (c) an entity's objectives, policies and processes for managing capital; and
- (d) the qualitative and quantitative disclosures for each type of risk (e.g. credit risk, liquidity risk, and market risk) that the entity is exposed to.

AASB 7 requires that an entity provide qualitative and quantitative disclosures for each type of risk arising from financial instruments. [AASB 7.31]

An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

Qualitative disclosure [AASB 7.33]

For each type of risk arising from financial instruments, an entity shall disclose:

- (a) the exposures to risk and how they arise;
- (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
- (c) any changes in (a) or (b) from the previous reporting period.

Quantitative disclosure [AASB 7.34-35]

For each type of risk arising from financial instruments, an entity shall disclose:

- (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in AASB 124 *Related Party Disclosures*); and
- (b) specific disclosures as required for each type of risk (see credit, liquidity and market risks), to the extent not provided in (a), unless the risk is not material.

Disclosures provided in this Model only cover credit risk, liquidity risk, and market risk. Entities should consider whether there may be other type of risks that they may need to disclose, specific to their own circumstances.

Financial instruments: Credit risk [AASB 7.7.33]

Credit risk refers to the possibility that a borrower will default on its financial obligations as and when they fall due. The Department's exposure to credit risk arises from the potential default of a counter party on their contractual obligations resulting in financial loss to the Department. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with the Department's contractual financial assets is minimal because the main debtor is the Victorian Government. For debtors other than the Government, it is the Department's policy to only deal with entities with high credit ratings of a minimum triple-B rating and to obtain sufficient collateral or credit enhancements, where appropriate.

In addition, the Department does not engage in hedging for its contractual financial assets and mainly obtains contractual financial assets that are on fixed interest, except for cash and deposits, which are mainly cash at bank. As with the policy for debtors, the Department's policy is to only deal with banks with high credit ratings.

Provision of impairment for contractual financial assets is recognised when there is objective evidence that the Department will not be able to collect a receivable. Objective evidence includes financial difficulties of the debtor, default payments, debts that are more than 60 days overdue, and changes in debtor credit ratings.

Except as otherwise detailed in the following table, the carrying amount of contractual financial assets recorded in the financial statements, net of any allowances for losses, represents the Department's maximum exposure to credit risk without taking account of the value of any collateral obtained.

There has been no material change to the Department's credit risk profile in 2017-18.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Credit quality of contractual financial assets that are neither past due nor impaired ^{(a)(b)} [AASB 7.36(c)]

(\$ thousand)

| 2018 | Financial institutions (triple-A credit rating) | Government agencies (triple-A credit rating) | Government agencies (triple-B credit rating) | Other (min triple-B credit rating) | Total |
|---|---|--|--|--|---------------|
| Cash and deposits | 23 911 | 23 711 | 8 929 | 2 976 | 59 528 |
| Receivables ^(a) | 1 694 | 1 294 | 560 | 187 | 3 735 |
| Investments and other financial assets | 5 750 | 5 430 | 2 096 | 699 | 13 976 |
| Total contractual financial assets | 31 355 | 30 435 | 11 586 | 3 862 | 77 238 |

| 2017 | Financial institutions (triple-A credit rating) | Government agencies (triple-A credit rating) | Government agencies (triple-B credit rating) | Other (min triple-B credit rating) | Total |
|---|---|--|--|--|---------------|
| Cash and deposits | 20 694 | 18 224 | 7 297 | 2 432 | 48 648 |
| Receivables ^(a) | 1 531 | 1 215 | 515 | 172 | 3 432 |
| Investments and other financial assets | 6 457 | 6 927 | 2 510 | 837 | 16 731 |
| Total contractual financial assets | 28 682 | 26 366 | 10 322 | 3 441 | 68 811 |

Notes: [AASB 132.AG12]

(a) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government and GST input tax credit recoverable).

(b) [The above illustrated disclosure is a best practice disclosure to meet the requirement of AASB 7 paragraph 36(c) and should be followed to the extent it is practicable. Where it is impractical to disclose credit ratings, these can be omitted and an entity can simply disclose creditors using categories that fit the entity's own creditor profile.]

Guidance – Credit risk disclosures

Credit risk [AASB 7.36]

In addition to the required quantitative disclosure above, an entity shall disclose:

- the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with AASB 132), either in narrative or tabular format;
- in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;
- information about the credit quality of contractual financial assets that are neither past due nor impaired; and
- the carrying amount of contractual financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Contractual financial assets that are either past due or impaired [AASB 7.37]

An entity shall disclose by class of contractual financial asset:

- an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;
- the amount of any impairment loss [AASB 7.20];
- an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; [AASB 7.37] and
- for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

Collateral and other credit enhancements obtained [AASB 7.38]

When an entity obtains financial instruments or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other AASs, an entity shall disclose:

- the nature and carrying amount of the assets obtained; and
- when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Guidance – Credit risk disclosures (*continued*)

Financial instruments at fair value through profit or loss [AASB 7.9, 10]

If the entity has designated a loan or receivable as at fair value through profit or loss, it shall disclose:

- (a) the maximum exposure to credit risk of the contractual financial asset at the end of the reporting period;
- (b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;
- (c) the amount of change, during the period and cumulatively, in the fair value of the financial asset that is attributable to changes in the credit risk of the contractual financial asset determined either:
 - (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
 - (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.
- (d) changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates; and
- (e) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.

If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of AASB 7, it shall disclose:

- (a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:
 - (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
 - (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.

Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund; and

- (b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

In addition, it shall also disclose the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

Assets received as collateral

Guidance – Assets received as collateral

When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

- (a) the fair value of the collateral held;
- (b) the fair value of any such collateral sold or repledged and whether the entity has an obligation to return it; and
- (c) the terms and conditions associated with its use of the collateral. [AASB 7.15]

If the owner of the collateral (i.e. transferor) provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

- (a) If the transferee has the right by contract or custom to sell or repledge the collateral, then the transferor shall reclassify that asset in its statement of financial position (e.g. as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets.
- (b) If the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral.
- (c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral.
- (d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset. [AASB 139.37]

Financial instruments: Liquidity risk [AASB 7.4, 33, 39]

Liquidity risk arises from being unable to meet financial obligations as they fall due. The Department operates under the Government fair payments policy of settling financial obligations within 30 days and in the event of a dispute, making payments within 30 days from the date of resolution.

The Department is exposed to liquidity risk mainly through the financial liabilities as disclosed in the face of the balance sheet and the amounts related to financial guarantees. The Department manages its liquidity risk by:

- close monitoring of its short-term and long-term borrowings by senior management, including monthly reviews on current and future borrowing levels and requirements;
- maintaining an adequate level of uncommitted funds that can be drawn at short notice to meet its short-term obligations;
- holding investments and other contractual financial assets that are readily tradeable in the financial markets;
- careful maturity planning of its financial obligations based on forecasts of future cash flows; and
- a high credit rating for the State of Victoria (Moody's Investor Services and Standard & Poor's triple-A, which assists in accessing debt market at a lower interest rate).

The Department's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. Cash for unexpected events is generally sourced from liquidation of available-for-sale financial investments.

The carrying amount detailed in the following table of contractual financial liabilities recorded in the financial statements, and \$200 000 (2017: \$200 000) in relation to financial guarantees granted for loans to other entities (refer to Note 8.2), represents the Department's maximum exposure to liquidity risk.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Guidance – Liquidity risk disclosures

Liquidity risk [AASB 7.39]

An entity shall disclose:

- (a) a maturity analysis for non-derivative financial instrument liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities;
- (b) a maturity analysis for derivative financial instrument liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial instrument liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and
- (c) a description of how it manages the liquidity risk inherent in (a) and (b).

The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows. An entity shall use its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

- (a) not later than one month;
- (b) later than one month and not later than three months;
- (c) later than three months and not later than one year;
- (d) later than one year and not later than five years; and
- (e) greater than five years. [AASB 7.B11]

An entity is required to disclose maturity analysis for financial liabilities that shows the remaining contractual maturities for some financial liabilities. In this disclosure:

- (a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities an entity can be required to repay on demand (e.g. demand deposits) are included in the earliest time band;
- (b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down; and
- (c) for issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. [AASB 7.B11C]

The contractual amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, for example:

- (a) gross finance lease obligations (before deducting finance charges);
- (b) prices specified in forward agreements to purchase financial assets for cash;
- (c) net amounts for pay floating/receive fixed interest rate swaps for which net cash flows are exchanged;
- (d) contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and
- (e) gross loan commitments. [AASB 7.B11D]

Financial instruments: Market risk

The Department's exposures to market risk are primarily through interest rate risk, foreign currency risk and equity price risk. Objectives, policies and processes used to manage each of these risks are disclosed below.

Sensitivity disclosure analysis and assumptions [AASB 7.40(b), 41, B17 B21]

The Department's sensitivity to market risk is determined based on the observed range of actual historical data for the preceding five-year period, with all variables other than the primary risk variable held constant. The Department's fund managers cannot be expected to predict movements in market rates and prices. Sensitivity analyses shown are for illustrative purposes only. The following movements are 'reasonably possible' over the next 12 months:

- a movement of 100 basis points up and down (100 basis points up and down) in market interest rates (AUD);
- proportional exchange rate movement of 15 per cent down (2018: 15 per cent, depreciation of AUD) and 15 per cent up (2017: 15 per cent, appreciation of AUD) against the USD, from the year end rate of 0.90 (2017: 0.90); and
- a movement of 15 per cent up and down (2017: 15 per cent) for the top ASX 200 index.

The tables that follow show the impact on the Department's net result and equity for each category of financial instrument held by the Department at the end of the reporting period, if the above movements were to occur.

[Entities should use basis points (interest rates) or percentages (foreign exchange and for equities/managed investment funds) relevant to their own situation at the end of the financial year.]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Interest rate risk [AASB 7.33]

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Department does not hold any interest bearing financial instruments that are measured at fair value, and therefore has no exposure to fair value interest rate risk.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Department has minimal exposure to cash flow interest rate risks through cash and deposits, term deposits and bank overdrafts that are at floating rate.

The Department manages this risk by mainly undertaking fixed rate or non-interest bearing financial instruments with relatively even maturity profiles, with only insignificant amounts of financial instruments at floating rate. Management has concluded for cash at bank and bank overdraft, as financial assets that can be left at floating rate without necessarily exposing the Department to significant bad risk, management monitors movement in interest rates on a daily basis.

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates and the Department's sensitivity to interest rate risk are set out in the table that follows.

Interest rate exposure of financial instruments [AASB 7.34(a)] (\$ thousand)

| 2018 | Weighted average interest rate (%) | Carrying amount | Fixed interest rate | Variable interest rate | Non-interest bearing |
|--|------------------------------------|-----------------|---------------------|------------------------|----------------------|
| Financial assets | | | | | |
| Cash and deposits | 2.50 | 59 528 | .. | 59 528 | .. |
| Receivables ^(a) | | | | | |
| Finance lease receivables | 4.55 | 581 | 581 | .. | .. |
| Sale of goods and services | | 1 253 | .. | .. | 1 253 |
| Loans to third parties | | 146 | .. | .. | 146 |
| Accrued investment income | | 1 864 | .. | .. | 1 864 |
| Other receivables | | 334 | .. | .. | 334 |
| Investments and other contractual financial assets | | | | | |
| Equities and managed investment schemes | | 2 065 | .. | .. | 2 065 |
| Term deposits | 3.65 | 2 890 | .. | 2 890 | .. |
| Debt securities | 4.57 | 9 021 | 5 198 | 3 823 | .. |
| Total financial assets | | 77 681 | 5 779 | 66 241 | 5 662 |
| Financial liabilities | | | | | |
| Payables ^(a) | | | | | |
| Supplies and services | | 4 466 | .. | .. | 4 466 |
| Amounts payable to government and agencies | | 10 890 | .. | .. | 10 890 |
| Other payables | | 817 | .. | .. | 817 |
| Borrowings | | | | | |
| Finance lease liabilities | 4.52 | 8 064 | 8 064 | .. | .. |
| Advances from government | | 5 314 | .. | .. | 5 314 |
| Loans from TCV | 3.55 | 48 696 | 48 696 | .. | .. |
| Total financial liabilities | | 78 247 | 56 760 | .. | 21 487 |

Note: [AASB 132.AG12]

(a) The carrying amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government and GST input tax credit recoverable).

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

(\$ thousand)

| 2017 | Weighted average interest rate (%) | Carrying amount | Interest rate exposure | | |
|--|------------------------------------|-----------------|------------------------|------------------------|----------------------|
| | | | Fixed interest rate | Variable interest rate | Non-interest bearing |
| Financial assets | | | | | |
| Cash and deposits | 3.55 | 48 648 | .. | 48 648 | .. |
| Receivables ^(a) | | | | | |
| Finance lease receivables | 4.05 | 1 231 | 1 231 | .. | .. |
| Sale of goods and services | | 902 | .. | .. | 902 |
| Loans to third parties | | 241 | .. | .. | 241 |
| Accrued investment income | | 1 058 | .. | .. | 1 058 |
| Other receivables | | 438 | .. | .. | 438 |
| Investments and other contractual financial assets | | | | | |
| Equities and managed investment schemes | | 4 179 | .. | .. | 4 179 |
| Term deposits | 4.05 | 5 130 | .. | 5 130 | .. |
| Debt securities | 4.57 | 7 422 | 5 013 | 2 409 | .. |
| Total financial assets | | 69 249 | 6 244 | 56 186 | 6 818 |
| Financial liabilities | | | | | |
| Payables ^(a) | | | | | |
| Supplies and services | | 3 430 | .. | .. | 3 430 |
| Amounts payable to government and agencies | | 1 796 | .. | .. | 1 796 |
| Other payables | | 8 925 | | | 8 925 |
| Borrowings | | | | | |
| Bank overdraft | 10.25 | 5 437 | | | 1 145 |
| Finance lease liabilities | 4.52 | 20 062 | 20 062 | 5 437 | .. |
| Advances from government | | 12 344 | .. | .. | 12 344 |
| Loans from TCV | 5.00 | 27 705 | 27 705 | .. | .. |
| Total financial liabilities | | 79 699 | 47 767 | 5 437 | 26 495 |

Note: [AASB 132.AG12]

(a) The carrying amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government and GST input tax credit recoverable).

Interest rate risk sensitivity [AASB 7.31, 34, 40(a)]

(\$ thousand)

| 2018 | Carrying amount | -100 basis points | | +100 basis points | |
|---|-----------------|-------------------|--|-------------------|--|
| | | Net result | Available-for-sale revaluation surplus | Net result | Available-for-sale revaluation surplus |
| Contractual financial assets | | | | | |
| Cash and deposits ^(a) | 59 528 | (595) | .. | (595) | .. |
| Investments and other contractual financial assets ^(b) | 13 976 | (67) | .. | (67) | .. |
| Total impact | | (662) | .. | (662) | .. |

2017

| | | | | | |
|---|--------|--------------|-----------|--------------|-----------|
| Contractual financial assets | | | | | |
| Cash and deposits ^(a) | 48 648 | (486) | .. | 486 | .. |
| Investments and other contractual financial assets ^(b) | 16 731 | (75) | .. | (75) | .. |
| Total impact | | (562) | .. | (562) | .. |
| Contractual financial liabilities | | | | | |
| Borrowings ^(b) | 65 548 | 54 | .. | 54 | .. |
| Total impact | | 54 | .. | 54 | .. |

Notes:

(a) Cash and deposits includes a deposit of \$59 528 thousand (2017: \$48 648 thousand) that is exposed to floating rates movements. Sensitivities to these movements are calculated as follows:

- 2018: \$59 528 thousand × 0.01 = \$595 thousand; and \$59 528 thousand × 0.01 = \$595 thousand; and
- 2017: \$48 648 thousand × 0.01 = \$486 thousand; and \$48 648 thousand × 0.01 = \$486 thousand. [AASB 7.40(b)]

(b) [Disclosures on amounts exposed to movements in foreign currencies and the method of calculations as per note (a) above should be made for each class of contractual financial asset or liability presented in the interest rate sensitivity table. Refer also to the guidance on calculation of interest rate risk sensitivity available in the commentary – nature and extent of risk disclosures.]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Foreign currency risk [AASB 7.33, 40(b)]

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign monetary items existing at the end of the reporting period are translated at the closing rate at the date of the end of the reporting period. Non-monetary assets carried at fair value that are denominated in foreign currencies, are translated to the functional currency at the rates prevailing at the date when the fair value was determined.

The Department is exposed to foreign currency risk mainly through its foreign currency term deposits, other receivables relating to the hire of the Department's venue by overseas clients, and payables relating to purchases of supplies and consumables from overseas. The Department has a limited amount of transactions denominated in foreign currencies and there is a relatively short timeframe between commitment and settlement, therefore risk is minimal.

The Department exposures are mainly against the US dollar (USD) and are managed through continuous monitoring of movements in exchange rates against the USD, and by ensuring availability of funds through rigorous cash flow planning and monitoring. Based on past and current assessment of economic outlook, it is deemed unnecessary for the Department to enter into any hedging arrangements to manage the risk.

The Department's sensitivity to foreign currency movements is set out below.

Foreign exchange risk sensitivity [AASB 7.31, 34, 40(a)]

(\$ thousand)

| | | -15% | AFS revaluation surplus | +15% | Available- for-sale revaluation surplus |
|---|--------------------|---------------|-------------------------------|----------------|--|
| 2018 | Carrying amount | Net result | | Net result | |
| Contractual financial assets | | | | | |
| Cash and deposits ^(b) | 9 712 | 1 714 | .. | (1 267) | .. |
| Receivables ^{(a)(c)} | 4 178 | 90 | .. | (66) | .. |
| Investments and other contractual financial assets ^(c) | 997 | 176 | .. | (130) | .. |
| Total impact | | 1 980 | .. | (1 463) | .. |
| Contractual financial liabilities | | | | | |
| Payables ^{(a)(c)} | 730 | (129) | .. | 95 | .. |
| Total impact | | (129) | .. | 95 | .. |
| 2017 | | | | | |
| Contractual financial assets | | | | | |
| Cash and deposits ^(b) | 7 936 | 1 401 | .. | (1 035) | .. |
| Receivables ^{(a)(c)} | 3 870 | 56 | .. | (42) | .. |
| Investments and other contractual financial assets ^(c) | 750 | 132 | .. | (98) | .. |
| Total impact | | 1 589 | .. | (1 175) | .. |
| Contractual financial liabilities | | | | | |
| Payables ^{(a)(c)} | 866 | (153) | .. | 113 | .. |
| Total impact | | (153) | .. | 113 | .. |

Notes:

- (a) The carrying amounts disclosed here exclude statutory amounts (e.g. amounts owing from the Victorian Government, GST input tax credit recoverable, and GST payables). [AASB 132.AG12]
- (b) Cash and deposits includes a deposit of \$9 712 thousand (2017: \$7 936 thousand) that is exposed to USD foreign currency movements. Sensitivities to these movements are calculated as follows:
- 2018: $[\$9\,712\text{ thousand} \times 0.9/(0.9(1-0.15))]$ - \$9 712 thousand = \$1 714 thousand; and $[\$9\,712\text{ thousand} \times 0.9/(0.9(1+0.15))]$ - \$9 712 thousand = \$1 267 thousand; and
 - 2017: $[\$7\,936\text{ thousand} \times 0.9/(0.9(1-0.15))]$ - \$7 936 thousand = \$1 401 thousand; and $[\$7\,936\text{ thousand} \times 0.9/(0.9(1+0.1))]$ - \$7 936 thousand = - \$1 035 thousand. [AASB 7.40(b)]
- (c) [Disclosures on amounts exposed to movements in foreign currencies and the method of calculations as per note (b) above should be made for each class of contractual financial asset or liability presented in the interest rate sensitivity table. Refer also to the guidance on calculation of interest rate risk sensitivity available in the commentary - nature and extent of risk disclosures.]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Equity price risk [AASB 7.33]

The Department is exposed to equity price risk through its investments in listed and unlisted shares and managed investment schemes. Such investments are allocated and traded to match the investment objectives appropriate for the Department's liabilities.

The Department appointed a State organisation to manage its investment portfolio in accordance with the Investment Risk Management Plan approved by the Treasurer. The fund manager on behalf of the Department closely monitors performance and manages the equity price risk through diversification of its investment portfolio.

The Department's sensitivity to equity price risk is set out below.

Other price risk sensitivity [AASB 7.31, 34, 40(a)] (\$ thousand)

| | | | -15% | | +15% |
|---|-----------------|------------|--|------------|--|
| | Carrying amount | Net result | Available-for-sale revaluation surplus | Net result | Available-for-sale revaluation surplus |
| 2018 | | | | | |
| Contractual financial assets | | | | | |
| Investments and other contractual financial assets ⁽ⁱ⁾ | 13 976 | .. | (310) | .. | 310 |
| Total impact | | .. | (310) | .. | 310 |

| | | | | | |
|---|--------|----|--------------|----|------------|
| 2017 | | | | | |
| Contractual financial assets | | | | | |
| Investments and other contractual financial assets ⁽ⁱ⁾ | 16 731 | .. | (627) | .. | 627 |
| Total impact | | .. | (627) | .. | 627 |

Notes:

(i) Investments and other contractual financial assets includes equities and managed investment schemes to the value of \$2 065 thousand (2017: \$4 179 thousand) that are exposed to movements in equity prices. Sensitivities to these movements are calculated as follows:

- 2018: \$2 065 thousand × 0.15 = \$310 thousand; and \$2 065 thousand × 0.15 = \$310 thousand; and
- 2017: \$4 179 thousand × 0.15 = \$627 thousand; and \$4 179 thousand × 0.15 = \$627 thousand.

[AASB 7.40(b)]

(ii) [Disclosures on amounts exposed to movements in foreign currencies and the method of calculations as per note (i) above should be made for each class of contractual financial asset or liability presented in the interest rate sensitivity table. Refer also to the guidance on calculation of interest rate risk sensitivity available in the commentary – nature and extent of risk disclosures.]

The balances for these calculations are to be gross of any income tax equivalents.

Guidance – Market risk disclosures

Market risk [AASB 7.40]

Market risk comprises foreign currency risk, interest rate risk, and other price risk.

Unless an entity prepares a sensitivity analysis, such as value at risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, an entity shall disclose:

- (a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
- (b) the methods and assumptions used in preparing the sensitivity analysis; and
- (c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

Further guidance for preparation of sensitivity analysis

Interest rate risk sensitivity

- The carrying value of a floating rate interest bearing instrument valued at fair value would not be impacted by a change in interest rates, however the change in interest rates would result in a change in the interest earned (if interest rates increase, the interest earned on the instrument would also increase).
- The carrying value of a fixed rate interest bearing instrument valued at fair value would be impacted by a change in interest rates (if interest rates increase, the carrying value of the instrument would decrease, but the interest earned would not be impacted).
- The carrying value of a fixed rate interest bearing instrument valued at amortised cost would not be impacted by a change in interest rates and neither would the interest earned.
- The impacts resulting from the above will change to the extent that interest rate risk was hedged.

The balances to be used for the interest rate sensitivity analysis should be the period-end balances. Where the year-end balances are not reflective of the balance held through the year, narrative explaining this and the impact on the sensitivity analysis should be included as an additional disclosure. [AASB 7.42]

Guidance – Market risk disclosures (continued)Impacts of an **increase** in interest rates

| | At fair value | | At amortised cost | | |
|---------------------------------|---------------------------|-----------------|---------------------------|----------------|--|
| | Interest income (expense) | Carrying value | Interest income (expense) | Carrying value | |
| Fixed rate asset (liability) | No change | Decrease | No change | No change | Finance leases are held at amortised cost <ul style="list-style-type: none"> • If these are at fixed rate there will be no impact • If there are at floating rate the impact will need to be quantified |
| | Interest income (expense) | Carrying value | Interest income (expense) | Carrying value | |
| Floating rate asset (liability) | Increase | No change | Increase | No change | Term deposits are held at amortised cost <ul style="list-style-type: none"> • Normally at a fixed rate so there will be no impact Cash deposits are normally at call <ul style="list-style-type: none"> • Normally at a floating rate so the impact will need to be quantified |
| | Interest income (expense) | Carrying value | Interest income (expense) | Carrying value | |

Impacts of a **decrease** in interest rates

| | At fair value | | At amortised cost | | |
|------------------------------|---------------------------|-----------------|---------------------------|----------------|--|
| | Interest income (expense) | Carrying value | Interest income (expense) | Carrying value | |
| Fixed rate asset (liability) | No change | Increase | No change | No change | Finance leases are held at amortised cost <ul style="list-style-type: none"> • If these are at a fixed rate there will be no impact • If these are at floating rate the impact will need to be quantified |
| | Interest income (expense) | Carrying value | Interest income (expense) | Carrying value | |
| Fixed rate asset (liability) | Decrease | No change | Decrease | No change | Term deposits are held at amortised cost <ul style="list-style-type: none"> • Normally at a fixed rate so there will be no impact Cash deposits are normally at call <ul style="list-style-type: none"> • Normally at a floating rate so the impact will need to be quantified |
| | Interest income (expense) | Carrying value | Interest income (expense) | Carrying value | |

Foreign currency risk sensitivity

The sensitivity analysis on foreign currency risk should include foreign currency denominated investments items, and adjust their translation at the period-end by the percentage of change in foreign currency rates determined to be reasonably possible.

A positive number indicates an increase in the net result where the Australian dollar strengthens against the respective currency.

The balances to be used for the foreign currency sensitivity analysis should be the period end balances. Where the year-end balances are not reflective of the balance held through the year, narrative explaining this and the impact on the sensitivity analysis should be included as an additional disclosure. [AASB 7.42]

Other price risk sensitivity

Equity price risk arises from equity investments (comprising both shares and investments in managed investment schemes). This price risk arises from listed and/or unlisted Australian and/or overseas securities.

The sensitivity data collection for price risk is based on the:

- exposure to the prices of listed equities (including managed investment schemes), and also unlisted equities (including managed investment schemes) both in Australia and overseas markets, at the end of the reporting period; and
- stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

The balances to be used for the other price risk sensitivity analysis should be the period end balances. Where the year end balances do not reflect the balance held through the year, narrative explaining this and the impact on the sensitivity analysis should be included as an additional disclosure. [AASB 7.42]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Guidance – Market risk disclosures (*continued*)

Value-at-risk [AASB 7.41]

If an entity uses value-at-risk for its sensitivity analysis, which reflects interdependencies between risk variables, and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified above. The entity shall also disclose:

- (a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and
- (b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Investments held through trusts or managed investments

Entities are not required to prepare sensitivity analyses for such investments on a look-through basis. Sensitivity for these investments may be prepared on the price per unit level only, not on the individual investments in the trust or portfolio, and disclosed as other price risk sensitivity.

However, an entity that holds investments in unlisted bond trusts shall disclose the fact that the market values of such investments are impacted by market expectations of future interest rate changes and changes to official interest rates. The entity's other price risk sensitivity analysis shall account for potential interest rate changes and the related impact on unit market price.

8.2 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet but are disclosed and, if quantifiable, are measured at nominal value.

Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Contingent assets

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

These are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable.

| Quantifiable contingent assets (arising from outside of government) | (\$ thousand) | |
|---|---------------|-----------|
| | 2018 | 2017 |
| Contingent assets | | |
| Guarantees ^(a) | 140 | .. |
| Early termination of contractual arrangement | .. | .. |
| | 140 | .. |

Note:

(a) The Department has a claim outstanding against a supplier for the supply of faulty products. Based on negotiations to date, management believe that it may be possible to recover this amount.

Contingent liabilities

Contingent liabilities are:

- possible obligations that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- present obligations that arise from past events but are not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or
 - the amount of the obligations cannot be measured with sufficient reliability.

Contingent liabilities are also classified as either quantifiable or non-quantifiable.

Non-quantifiable contingent liabilities

A number of potential obligations are non-quantifiable at this time arising from:

- indemnities provided in relation to transactions, including financial arrangements and consultancy services, as well as for directors and administrators;
- performance guarantees, warranties, letters of comfort and the like;
- deeds in respect of certain obligations; and
- unclaimed monies, which may be subject to future claims by the general public against the State.

Quantifiable contingent liabilities

(\$ thousand)

| | 2018 | 2017 |
|---|------------|------------|
| Legal proceedings and disputes ^(a) | 250 | 210 |
| Share of an associate's contingent liabilities ^(b) | .. | .. |
| Share of a joint ventures' contingent liabilities | .. | .. |
| Guarantees for loans to other entities ^(c) | 200 | 200 |
| Total | 450 | 410 |

The Department is severally liable for all/part of the liabilities of an associate, [name] ^(d)

Notes:

- (a) Claims for damages were lodged during the year against the Department and certain staff in relation to alleged non-performance under a technology contract. The Department has disclaimed liability and is defending the action.
- (b) The extent to which an outflow of funds will be required is dependent on the future operations of the associate being more or less favourable than currently expected.
- (c) The amount disclosed for financial guarantee in this note is the nominal amount of the underlying loan that is guaranteed by the Department, not the fair value of the financial guarantee. The Department has reviewed its financial guarantees and determined there is no material liability to be recognised for financial guarantee contracts at 30 June 2018.
- (d) The Department's joint and several liabilities for the liabilities of [name] will only be called upon in the event of default by [name]. The term of this arrangement is indefinite. The amount disclosed as a contingent liability is the aggregate liabilities of [name] as at 30 June 2018. The extent to which an outflow of funds will be required is dependent on the future operations of [name] being more or less favourable than currently expected.

Guidance – Contingent assets and contingent liabilities**Contingent assets** [AASB 137.89-91]

Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and where practicable, an estimate of their financial effect. Where any of this information is not disclosed because it is not practicable to do so, that fact shall be stated.

It is important disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising.

For the purposes of providing illustrative disclosures that will assist users in preparing financial statements, the disclosures of contingent assets have been illustrated irrespective of whether a situation might give rise to future economic benefits, which are considered to be not probable.

Exemptions [AASB 137.92]

In extremely rare cases, disclosure of some or all of the information illustrated above may seriously prejudice the position of the entity in a dispute with other parties. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Provisions [AASB 137.88]

Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the required disclosures in a way that shows the link between the provision and the contingent liability.

Contingent liabilities [AASB 137.86-87, 137.91]

Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

Where any of the information is not disclosed because it is not practicable to do so, that fact shall be stated.

In determining which contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of AASB 137.86(a) and (b) above.

For the purposes of providing illustrative disclosures that will assist users in preparing financial statements, the disclosures of contingent liabilities have been illustrated irrespective of whether a situation might give rise to future economic sacrifices, which are considered to be remote.

Financial guarantee

Entities are encouraged to disclose the underlying nominal amounts of any loan, for which it provided financial guarantees, in this note under contingent liabilities.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

8.3 Fair value determination

Significant judgement: Fair value measurements of assets and liabilities

Fair value determination requires judgement and the use of assumptions. This section discloses the most significant assumptions used in determining fair values. Changes to assumptions could have a material impact on the results and financial position of the Department.

This section sets out information on how the Department determined fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following assets and liabilities are carried at fair value:

- financial assets and liabilities at fair value through operating result;
- available-for-sale financial assets;
- land, buildings, infrastructure, plant and equipment;
- investment properties; and
- biological assets.

In addition, the fair values of other assets and liabilities that are carried at amortised cost, also need to be determined for disclosure purposes.

The Department determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

Fair value hierarchy

In determining fair values a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Department determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Valuer-General Victoria (VGV) is the Department's independent valuation agency (or) The Department, in conjunction with VGV *[and other external valuers, if applicable]*, monitors changes in the fair value of each asset and liability through relevant data sources to determine whether revaluation is required.

How this section is structured

For those assets and liabilities for which fair values are determined, the following disclosures are provided:

- carrying amount and the fair value (which would be the same for those assets measured at fair value);
- which level of the fair value hierarchy was used to determine the fair value; and
- in respect of those assets and liabilities subject to fair value determination using Level 3 inputs:
 - a reconciliation of the movements in fair values from the beginning of the year to the end; and
 - details of significant unobservable inputs used in the fair value determination.

This section is divided between disclosures in connection with fair value determination for financial instruments (refer to Note 8.3.1) and non-financial physical assets (refer to Note 8.3.2).

8.3.1 Fair value determination of financial assets and liabilities

The fair values and net fair values of financial assets and liabilities are determined as follows: [\[AASB 13.93\(a\)\(b\)\]](#)

- Level 1 – the fair value of financial instruments with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;
- Level 2 – the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3 – the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

The Department currently holds a range of financial instruments that are recorded in the financial statements where the carrying amounts approximate to fair value, due to their short-term nature or with the expectation that they will be paid in full by the end of the 2017-18 reporting period. [\[AASB 7.29\(a\)\]](#)

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

These financial instruments include:

| Financial assets | Financial liabilities |
|--|---|
| Cash and deposits | Payables: |
| Receivables: | <ul style="list-style-type: none"> For supplies and services Amounts payable to government and agencies Other payables |
| <ul style="list-style-type: none"> Sale of goods and services Accrued investment income Other receivables | Borrowings: |
| Investments and other contractual financial assets: | <ul style="list-style-type: none"> Bank overdraft |
| <ul style="list-style-type: none"> Term deposits | |

Where the fair value of the financial instruments is different from the carrying amounts, the following information has been included to disclose the difference. [AASB 7.25]

Fair value of financial instruments measured at amortised cost (\$ thousand)

| Source reference | Carrying amount | Fair value | Carrying amount | Fair value |
|---|-----------------|------------|-----------------|------------|
| AASB 13.93(b)(d) | 2018 | 2018 | 2017 | 2017 |
| Financial assets | | | | |
| Receivables^(a) | | | | |
| Finance lease receivables | 581 | 590 | 1 231 | 1 450 |
| Loans to third parties | 146 | 159 | 241 | 250 |
| Debt securities ^(a) | 5 198 | 5 222 | 5 013 | 5 155 |
| Financial liabilities | | | | |
| Finance lease liabilities | 8 064 | 8 110 | 20 062 | 21 500 |
| Advances from government ^(b) | 5 314 | 5 579 | 12 344 | 12 961 |
| Loans from TCV | 48 696 | 47 500 | 27 705 | 23 000 |

Notes:

- (a) Debt securities include a five-year government bond that is intended to be held until maturity. Therefore it has been measured at amortised cost with the carrying amount of \$5 198. The remaining portion of debt securities (\$3 823) is designated as fair value through profit and loss.
- (b) The fair value of advances from government is based on cash flows discounted using a rate based on the borrowing rate of 7.5 per cent (2017: 7.2 per cent). The discount rate equals to LIBOR plus appropriate credit rating. The fair value is within level 2 of the fair value hierarchy.

Financial assets measured at fair value^(a) (\$ thousand)

| Source reference | Carrying amount as | Fair value measurement at end of reporting period using: | | | |
|---|--------------------|--|------------------------|------------------------|------------|
| AASB 13.93(b) | 2018 | at 30 June | Level 1 ^(b) | Level 2 ^(b) | Level 3 |
| Financial assets at fair value through profit or loss | | | | | |
| Debt securities – five-year government bonds | 3 823 | .. | 3 823 | .. | .. |
| Available-for-sale securities | | | | | |
| Listed securities | 1 614 | 1 614 | .. | .. | .. |
| Unlisted securities | 222 | .. | .. | .. | 222 |
| Managed investment schemes | 229 | .. | 229 | .. | .. |
| Total | 5 888 | 1 614 | 4 052 | 222 | 222 |

| Source reference | 2017 | Carrying amount as | Level 1 ^(b) | Level 2 ^(b) | Level 3 |
|---|--------------|--------------------|------------------------|------------------------|------------|
| AASB 13.93(b) | 2017 | at 30 June | 2017 | 2017 | 2017 |
| Financial assets at fair value through profit or loss | | | | | |
| Debt securities – five-year government bonds | 2 409 | .. | 2 409 | .. | .. |
| Available-for-sale securities | | | | | |
| Listed securities | 1 492 | 1 492 | .. | .. | .. |
| Unlisted securities | 538 | .. | .. | .. | 538 |
| Equities and managed investment schemes | 2 149 | .. | 2 149 | .. | .. |
| Total | 6 589 | 3 901 | 2 149 | 538 | 538 |

Notes:

- (a) [The fair value hierarchy disclosures shall be disclosed by class of financial instrument where class is the lowest level disclosed in the financial statements or notes, and is distinct from a category of financial instrument as specified in AASB 139 paragraph 9.] [AASB 7.27B(b)]
- (b) There is no significant transfer between Level 1 and Level 2.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

There have been no transfers between levels during the period. [AASB 13.93(c)]

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate fair value. [AASB 13.93(d)]

Listed securities: The listed securities are valued at fair value with reference to a quoted (unadjusted) market price from an active market. The Department categorises these instruments as Level 1.

Debt securities: In the absence of an active market, the fair value of the Department's debt securities and government bonds are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are observable, the Department categorises these investments as Level 2.

Unlisted securities: The fair value of unlisted securities is based on the discounted cash flow method. Significant inputs in applying this technique include growth rates applied for future cash flows and discount rates utilised. To the extent that the significant inputs are unobservable, the Department categorises these investments as Level 3.

Managed investment schemes: The Department invests in managed funds, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock-up periods, redemption gates and side pockets. The Department considers the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investment, to ensure they are reasonable and appropriate and therefore the net asset value (NAV) of these funds may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions and redemptions, future commitments and other specific factors of the fund. In measuring fair value, consideration is also paid to any transactions in the shares of the fund. Depending on the nature and level of adjustments needed to the NAV and the level of trading of the Department, the Department classifies these funds as either Level 2 or Level 3.

Reconciliation of Level 3 fair value movements ^(a)

(\$ thousand)

| Source reference AASB 13.93(d)(e) | Available-for-sale financial assets | | Total | |
|---|--|-------|-------|-------|
| | Unlisted securities | | | |
| | 2018 | 2017 | 2018 | 2017 |
| Opening balance | 538 | 509 | 538 | 509 |
| Total gains or losses recognised in: | | | | |
| net result | .. | .. | .. | .. |
| other comprehensive income | .. | .. | .. | .. |
| Purchases | 349 | 202 | 349 | 202 |
| Machinery of government transfer in | 108 | .. | 108 | .. |
| Machinery of government transfer out | (406) | .. | (406) | .. |
| Settlements | (330) | (173) | (330) | (173) |
| Transfers from other categories | .. | .. | .. | .. |
| Transfers out of Level 3 ^(b) | (37) | .. | (37) | .. |
| Closing balance | 222 | 538 | 222 | 538 |
| Total gains or losses for the period included in profit or loss for assets held at the end of the period | .. | .. | .. | .. |

Notes:

(a) [Where significant transfers have occurred during the period, provide disclosure of such transfers and the reasons thereof.] [AASB 13.93(d)(e)]

(b) This transfer is due to transfer to assets held for sale category.

The fair value of unlisted investments is based on the discounted cash flow technique. Significant inputs in applying this technique include growth rates applied for cash flows and discount rates used. An increase in the growth rates applied to cash flows by 1 per cent would result in a change in the fair value of the unlisted investments by \$50 000. An increase in the discount rates used of 50 basis points would result in a decrease in the fair value of the investments by \$66 000. [AASB 13.93(h)(i)]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Description of Level 3 valuation techniques used and key inputs to valuation [AASB 13.93(d), (h)(ii)]

| | <i>Valuation technique</i> ^(a) | <i>Significant unobservable inputs</i> ^(a) | <i>Range (weighted average)</i> ^(a) | <i>Sensitivity of fair value measurement to changes in significant unobservable inputs</i> ^(b) |
|--|---|---|--|---|
| Unlisted securities | Discounted cash flow method | Long-term growth rate for cash flows for subsequent years | 4.4%–6.1% (5.3%) | 1 per cent increase or decrease in the growth rate would result in an increase or decrease in fair value by \$23 000 |
| | | Long-term operating margin | 10.0%–16.1% (14.3%) | 1 per cent increase or decrease in the margin would result in an increase or decrease in fair value by \$12 000 |
| | | WACC | 12.1%–16.7% (13.2%) | 1 per cent increase or decrease in the WACC would result in a decrease or increase in fair value by \$21 000 |
| | | Discount for lack of marketability | 5.1%–20.2% (16.3%) | 1 per cent increase or decrease in the discount would result in a decrease or increase in fair value by \$34 000 |
| Discontinued operation – unlisted securities | Discounted cash flow method | Long-term growth rate for cash flows for subsequent years | 3.6%–4.6% (4.1%) | 1 per cent increase or decrease in the growth rate would result in an increase or decrease in fair value by \$165 000 |
| | | Long-term operating margin | 12.0%–21.1% (19.3%) | 1 per cent increase or decrease in the margin would result in an increase or decrease in fair value by \$97 000 |
| | | WACC | 10.1%–14.7% (11.2%) | 1 per cent increase or decrease in the WACC would result in a decrease or increase in fair value by \$85 000 |
| | | Discount for lack of marketability | 6.1%–21.2% (17.3%) | 1 per cent increase or decrease in the discount would result in a decrease or increase in fair value by \$20 000 |

Notes:

- (a) Illustrations on the valuation techniques, significant unobservable inputs and the related quantitative range of those inputs are indicative and should not be directly used without consultation with entities' independent valuer.
- (b) In addition to providing a narrative description of the sensitivity of recurring Level 3 fair value measurements to changes in the unobservable inputs used, entities are required to describe any interrelationships between the unobservable inputs and discuss how they might magnify or mitigate the effect of changes on the fair value measurement. For example, if WACC has increased due to changes in assumptions used in the risk profile, we need to examine the impact of this change on the long-term growth rates and operating margins, and whether the change impacts the assumptions used and sensitivity of the inputs to fair value.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Guidance – Fair value determination of financial assets and liabilities

Carrying amount and fair value disclosures [AASB 7.25]

If management considers that the carrying amount of contractual financial assets and liabilities recorded in the financial statements does not approximate their fair values, or as set out in AASB 7.29, for each class of financial instruments, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with the corresponding carrying amount in the balance sheet (AASB 139 provides guidance for determining fair value). In addition, for each class of financial instrument that is recognised on the balance sheet at fair value, the entity shall disclose:

- (a) the level in the fair value hierarchy in accordance with the levels defined in AASB 7.27A; [AASB 7.27B(a)]
- (b) any significant transfers in and transfers out between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level; [AASB 7.27B(b)]
- (c) for Level 3 of the fair value hierarchy, a reconciliation of opening balances to closing balances shown separately:
 - total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the comprehensive operating statement (if presented);
 - total gains or losses recognised in other comprehensive income;
 - purchases, sales, issues and settlements (each type of movement disclosed separately);
 - transfers into or out of level 3 (e.g. transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into level 3 shall be disclosed and discussed separately from transfers out of level 3; [AASB 7.27B(c)]
- (d) the amount of total gains or losses for the period that are recognised in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the comprehensive statement (if presented); and [AASB 7.27B(d)]
- (e) if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact, disclose the effect of those changes and how the effect was calculated. [AASB 7.27B(e)]

The level in the fair value hierarchy in which the fair value measurement is categorised in its entirety shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. [AASB 7.27A]

A department shall present the quantitative fair value disclosures stated above in tabular format unless another format is more appropriate.

Fair value determined using valuation techniques [AASB 13.93(e)]

The fair value hierarchy and the reconciliation of those financial instruments whose fair value is measured based on unobservable inputs (Level 3) are required by class. Class of financial instrument is distinct from the categories of financial instruments specified in AASB 139 (which determines how financial instruments are measured and where changes in the fair value are recognised). The class of financial instrument is determined by the entity based on whether the financial instruments have similar characteristics, such as the valuation techniques, inputs or other matters.

Entities are required to disclose the effect of a reasonably possible alternative assumption, if this would change the fair value significantly. Disclosures about the effect of reasonably possible alternative unobservable inputs is likely to provide useful and transparent information if the analysis is provided at a disaggregated level. [AASB 7.27B(e)]

Disclosures about the effect of reasonably possible alternative unobservable inputs could be enhanced through disclosure of how the effect has been calculated, allowing users to understand better the disclosure and what it represents. Entities might consider explaining:

- what the entity regards as a reasonably possible alternative assumption;
- how the entity calculated the effect disclosed;
- whether the disclosure takes into account any offsetting or hedged positions; and
- whether the effect disclosed represents the movement in a single input or a movement in all unobservable inputs.

Guidance – Fair value determination of financial assets and liabilities (continued)**Fair value Level 3 financial asset and liability disclosure**

AASB 13.93(h)(ii) requires a quantitative sensitivity analysis for financial assets and financial liabilities that are measured at fair value on a recurring basis. For all other recurring fair value measurements that are categorised within Level 3 of the fair value hierarchy, an entity is required to provide:

- if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes; and
- the entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

Exceptions to fair value disclosures [AASB 7.29, 30]

Disclosures of fair value are not required if:

- (a) the carrying amount is a reasonable approximation of fair value;
- (b) it is an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with AASB 139 because its fair value cannot be measured reliably; or
- (c) it is a contract containing a discretionary participation feature and the fair value of that feature cannot be measured reliably.

In the cases of (b) and (c) above, an entity shall disclose information to help users of the financial statement make their own judgements about the extent of possible differences between the carrying amount of those financial instrument assets or liabilities and their fair value, including:

- (a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
- (b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
- (c) information about the market for the instruments;
- (d) information about whether and how the entity intends to dispose of the financial instruments; and
- (e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

8.3.2 Fair value determination: Non-financial physical assets

Fair value measurement hierarchy [AASB 13.93 (a)(b)]

(\$ thousand)

| 2018 | Carrying amount as at 30 June 2018 | Fair value measurement at end of reporting period using: | | |
|---|---------------------------------------|---|------------------------|------------------------|
| | | Level 1 ^(a) | Level 2 ^(a) | Level 3 ^(a) |
| Land at fair value | | | | |
| Non-specialised land | 1 778 | n.a. | 1 778 | .. |
| Specialised land | 2 784 | n.a. | .. | 2 784 |
| Total of land at fair value | 4 562 | n.a. | 1 778 | 2 784 |
| Buildings at fair value | | | | |
| Non-specialised buildings | 6 877 | n.a. | 6 877 | .. |
| Specialised buildings | 5 715 | n.a. | .. | 5 715 |
| Heritage assets ^(b) | 10 596 | n.a. | .. | 10 596 |
| Total of buildings at fair value | 23 188 | n.a. | 6 877 | 16 311 |
| Plant, equipment and vehicles at fair value | | | | |
| Vehicles ^(c) | 16 941 | n.a. | .. | 16 941 |
| Plant and equipment | 30 935 | n.a. | .. | 30 935 |
| Total of plant, equipment and vehicles at fair value | 47 876 | n.a. | .. | 47 876 |
| Infrastructure at fair value | | | | |
| Infrastructure | 1 685 | n.a. | .. | 1 685 |
| Total of infrastructure at fair value | 1 685 | n.a. | .. | 1 685 |
| Road, infrastructure and earthworks at fair value | | | | |
| Road, infrastructure and earthworks at fair value | 2 257 | n.a. | .. | 2 257 |
| Total of road, infrastructure and earthworks at fair value | 2 257 | n.a. | .. | 2 257 |
| Cultural assets at fair value | | | | |
| Artworks | 2 764 | n.a. | 2 764 | .. |
| Total of cultural assets at fair value | 2 764 | n.a. | 2 764 | .. |

Notes:

(a) Classified in accordance with the fair value hierarchy.

(b) The Department holds \$10.6 million worth of properties listed as heritage assets. These heritage assets cannot be modified nor disposed of without formal ministerial approval.

(c) [Vehicles are categorised to Level 3 assets if the current replacement cost is used in estimating the fair value. However, entities should consult with an independent valuer in determining whether a market approach is appropriate for vehicles with an active resale market available. If yes, a Level 2 categorisation for such vehicles would be appropriate.]

(\$ thousand)

| 2017 | Carrying amount as at 30 June 2017 | Fair value measurement at end of reporting period using: | | |
|---|---------------------------------------|---|------------------------|------------------------|
| | | Level 1 ^(a) | Level 2 ^(b) | Level 3 ^(c) |
| Land at fair value | | | | |
| Non-specialised land | 987 | n.a. | 987 | .. |
| Specialised land | 2 534 | n.a. | .. | 2 534 |
| Total of land at fair value | 3 521 | n.a. | 987 | 2 534 |
| Buildings at fair value | | | | |
| Non-specialised buildings | 2 082 | n.a. | 2 082 | .. |
| Specialised buildings | 4 595 | n.a. | .. | 4 595 |
| Heritage assets ^(b) | 12 553 | n.a. | .. | 12 553 |
| Total of buildings at fair value | 19 230 | n.a. | 2 082 | 19 230 |
| Plant, equipment and vehicles at fair value | | | | |
| Vehicles ^(c) | 15 321 | n.a. | .. | 15 231 |
| Plant and equipment | 27 788 | n.a. | .. | 27 788 |
| Total of plant, equipment and vehicles at fair value | 43 109 | n.a. | .. | 43 109 |
| Infrastructure at fair value | | | | |
| Infrastructure | 4 931 | n.a. | .. | 4 931 |
| Total of infrastructure at fair value | 4 931 | n.a. | .. | 4 931 |
| Road, infrastructure and earthworks at fair value | | | | |
| Road, infrastructure and earthworks at fair value | 4 993 | n.a. | .. | 4 993 |
| Total of road, infrastructure and earthworks at fair value | 4 993 | n.a. | .. | 4 993 |
| Cultural assets at fair value | | | | |
| Artworks | .. | n.a. | .. | .. |
| Total of cultural assets at fair value | .. | n.a. | .. | .. |

Notes:

(a) Classified in accordance with the fair value hierarchy.

(b) The Department holds \$10.6 million worth of properties listed as heritage assets. These heritage assets cannot be modified nor disposed of without formal ministerial approval.

(c) [Vehicles are categorised to Level 3 assets if the current replacement cost is used in estimating the fair value. However, entities should consult with an independent valuer in determining whether a market approach is appropriate for vehicles with an active resale market available. If yes, a Level 2 categorisation for such vehicles would be appropriate.]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

There have been no transfers between levels during the period. [AASB 13.93(c)]

Non-specialised land, non-specialised buildings and artworks are valued using the market approach, whereby assets are compared to recent comparable sales or sales of comparable assets that are considered to have nominal value. [AASB 13.93(d)]

An independent valuation was performed by Norton and Paine to determine fair value using the market approach. Valuation of the assets was determined by analysing comparable sales and allowing for share, size, topography, location and other relevant factors specific to the asset being valued. From this analysis, an appropriate rate per square metre has been applied to the subject asset. The effective date of the valuation is 30 June 2018. [AASB 116.77(a), (b)]

For artwork, valuation of the assets is determined by a comparison to similar examples of the artist's work in existence throughout Australia and research on recent prices paid for similar examples offered at auction or through art galleries. No revaluation was performed for artwork for the financial period ending at 30 June 2018 [Entities should disclose the effective date of revaluation and the fact whether an independent valuer was involved if artwork was revalued during the current financial period].

To the extent that non-specialised land, non-specialised buildings and artworks do not contain significant, unobservable adjustments, these assets are classified as Level 2 under the market approach.

Plant and equipment is held at fair value. When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the current replacement cost method.

There were no changes in valuation techniques throughout the period to 30 June 2018. [AASB 13.66]

For all assets measured at fair value, the current use is considered the highest and best use. [AASB 13.93(i)]

Vehicles are valued using the current replacement cost method. The Department acquires new vehicles and at times disposes of them before the end of their economic life. The process of acquisition, use and disposal in the market is managed by experienced fleet managers in the Department who set relevant depreciation rates during use to reflect the utilisation of the vehicles.

Specialised land and specialised buildings: The market approach is also used for specialised land, although is adjusted for the community service obligation (CSO) to reflect the specialised nature of the land being valued.

The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach is in light of the highest and best use consideration required for fair value measurement, and takes into account the use of the asset that is physically possible, legally permissible, and financially feasible. As adjustments of CSO are considered as significant unobservable inputs, specialised land would be classified as Level 3 assets.

For the majority of the Department's specialised buildings, the current replacement cost method is used, adjusting for the associated depreciations. As depreciation adjustments are considered as significant, unobservable inputs in nature, specialised buildings are classified as Level 3 fair value measurements.

An independent valuation of the Departments' specialised land and specialised buildings was performed by the Valuer-General Victoria. The valuation was performed using the market approach adjusted for CSO. The effective date of the valuation is 30 June 2018. [AASB 116.77(a), (b), AASB 116 Aus77.1]

Heritage assets, infrastructure and road infrastructure and earthworks are valued using the current replacement cost method. This cost generally represents the replacement cost of the building/component after applying depreciation rates on a useful life basis. However, for some heritage and iconic assets, the cost may be the reproduction cost rather than the replacement cost if those assets' service potential could only be replaced by reproducing them with the same materials.

Where it has not been possible to examine hidden works such as structural frames and floors, the use of reasonable materials and methods of construction have been assumed bearing in mind the age and nature of the building. The estimated cost of reconstruction including structure services and finishes, also factors in any heritage classifications as applicable.

An independent valuation of the Department's heritage assets, infrastructure and road infrastructure and earthworks was performed by the Valuer-General Victoria. The valuation was performed based on the current replacement cost of the assets. The effective date of the valuation is 30 June 2018. [AASB 116.77(a), (b), AASB 116 Aus77.1]

For a more detailed analysis of the sensitivity of significant unobservable inputs used in valuation, please refer to table Description of significant unobservable inputs to Level 3 valuation on page 195.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Reconciliation of Level 3 fair value movements [AASB 13.93 (e)(f)]

| 2018 | Specialised land | Specialised buildings | Heritage assets | Vehicles | Plant and equipment | Infrastructure | Road, infrastructure and earthworks |
|---|------------------|-----------------------|-----------------|---------------|---------------------|----------------|-------------------------------------|
| Opening balance | 2 306 | 3 694 | 14 943 | 13 881 | 25 016 | 7 767 | 8 475 |
| Purchases (sales) | 527 | 1 073 | 570 | 1 691 | 3 041 | (986) | (749) |
| Transfers in (out) of Level 3 | .. | .. | .. | .. | .. | .. | .. |
| Gains or losses recognised in net result | | | | | | | |
| Depreciation | .. | (56) | (1 131) | (138) | (269) | (585) | (1 217) |
| Impairment loss | .. | (44) | (536) | (113) | .. | (673) | (664) |
| Subtotal | .. | (100) | (1 667) | (251) | (269) | (1 285) | (1 881) |
| Gains or losses recognised in other economic flows – other comprehensive income | | | | | | | |
| Revaluation | (299) | (72) | (1 293) | .. | .. | (592) | (852) |
| Subtotal | (299) | (72) | (1 293) | .. | .. | (592) | (852) |
| Closing balance | 2 534 | 4 595 | 12 553 | 15 231 | 27 788 | 4 931 | 4 993 |
| Unrealised gains/(losses) on non-financial assets ^(a) | .. | .. | .. | .. | .. | .. | .. |

| 2017 | Specialised land | Specialised buildings | Heritage assets | Vehicles | Plant and equipment | Infrastructure | Road, infrastructure and earthworks |
|---|------------------|-----------------------|-----------------|---------------|---------------------|----------------|-------------------------------------|
| Opening balance | 2 534 | 4 595 | 12 553 | 15 321 | 27 788 | 4 931 | 4 993 |
| Purchases (sales) | 579 | 1 334 | 479 | 1 870 | 3 385 | (2 419) | (1 501) |
| Transfers in (out) of Level 3 | .. | .. | .. | .. | .. | .. | .. |
| Gains or losses recognised in net result | | | | | | | |
| Depreciation | .. | (70) | (950) | (125) | (238) | (200) | (550) |
| Impairment loss | .. | (55) | (450) | (125) | .. | (230) | (300) |
| Subtotal | .. | (125) | (1 400) | (250) | (238) | (430) | (850) |
| Gains or losses recognised in other economic flows – other comprehensive income | | | | | | | |
| Revaluation | (329) | (89) | (1 086) | .. | .. | (397) | (385) |
| Subtotal | (329) | (89) | (1 086) | .. | .. | (397) | (385) |
| Closing balance | 2 784 | 5 715 | 10 546 | 16 941 | 30 935 | 1 685 | 2 257 |
| Unrealised gains/(losses) on non-financial assets ^(a) | .. | .. | .. | .. | .. | .. | .. |

Note:

(a) [Please note AASB 13 Fair Value Measurement provides an exemption for not-for-profit public sector entities from disclosing the shaded row relating to 'unrealised gains/(losses) on non-financial assets' if the assets are held primarily for their current service potential rather than to generate net cash inflows. As this exemption is not applicable for assets that are held for cash generating purposes, not-for-profit entities that have assets generating net cash inflows will still need to disclose the information in the shaded row.]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Description of significant unobservable inputs to Level 3 valuations [AASB 13.93 (h)(i)]

| 2018 and 2017 | Valuation technique ^(a) | Significant unobservable inputs ^(a) | Range (weighted average) ^(a) | Sensitivity of fair value measurement to changes in significant unobservable inputs ^(a) |
|--|---|--|--|---|
| Specialised land | Market approach | Community service obligation (CSO) adjustment | 50-70% (60%) ^(b) | A significant increase or decrease in the CSO adjustment would result in a significantly lower (higher) fair value. |
| Specialised buildings | Current replacement cost | Direct cost per square metre | \$1 000-\$1 500/m ² (\$1 300) | A significant increase or decrease in direct cost per square metre adjustment would result in a significantly higher or lower fair value. |
| | | Useful life of specialised buildings | 30-60 years (45 years) | A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation. |
| Heritage assets | Current replacement cost ^(c) | Direct cost per square metre | \$600-\$900/m ² (\$800) | A significant increase or decrease in direct cost per square metre adjustment would result in a significantly higher or lower fair value. |
| | | Useful life of heritage assets | 75-95 years (85 years) | A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation. |
| Vehicles | Current replacement cost | Cost per unit | \$9 000-\$10 000 per unit (\$9 500 per unit) | A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value. |
| | | Useful life of vehicles | 3-5 years (3 years) | A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation. |
| Plant and equipment | Current replacement cost | Cost per unit | \$3 000-\$4 000 per unit (\$3 500 per unit) | A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value. |
| | | Useful life of plant and equipment | 5-10 years (7 years) | A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation. |
| Infrastructure | Current replacement cost | Cost per unit | \$5 000-\$8 000 per unit (\$7 000 per unit) | A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value. |
| | | Useful life of the infrastructure | 10 to 32 years (15 years) | A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation. |
| Road, infrastructure and earthworks | Current replacement cost | Cost per metre | \$500-\$650 per metre (\$600 per metre) | A significant increase or decrease in cost per metre would result in a significantly higher or lower fair value. |
| | | Useful life of the road, infrastructure and earthworks | 60 to 90 years (75 years) | A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation. |

Note:

- (a) [Illustrations on the valuation techniques and significant unobservable inputs are indicative and should not be directly used without consultation with entities' independent valuer. Please note AASB 13 Fair Value Measurement provides an exemption for not-for-profit public sector entities from disclosing the shaded row relating to 'unrealised gains/(losses) on non-financial assets' if the assets are held primarily for their current service potential rather than to generate net cash inflows. As this exemption is not applicable for assets that are held for cash generating purposes, not-for-profit entities that have assets generating net cash inflows will still need to disclose the information in the shaded columns.]
- (b) CSO adjustments ranging from 50 per cent to 70 per cent were applied to reduce the market approach value for the Department's specialised land, with the weighted average 60 per cent reduction applied.
- (c) For some heritage and iconic assets, cost may be the reproduction cost of the asset rather than the replacement cost if their service potential could only be replaced by reproducing them with the same materials.

Significant unobservable inputs have remained unchanged since June 2017.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Investment properties measured at fair value and their categorisation in the fair value hierarchy

[AASB 13.93 (a)(b)]

(\$ thousand)

| 2018 | Carrying amount | Fair value measurement at end of reporting period using: | | |
|-----------------------|-----------------|--|------------------------|------------------------|
| | | Level 1 ^(a) | Level 2 ^(a) | Level 3 ^(a) |
| Investment properties | 2 354 | n.a. | 2 354 | .. |

| 2017 | | | | |
|-----------------------|-------|------|-------|----|
| Investment properties | 5 029 | n.a. | 5 029 | .. |

Note:

(a) Classified in accordance with the fair value hierarchy.

There have been no transfers between levels during the period. There were no changes in valuation techniques throughout the period to 30 June 2018. [AASB 13.93(c), AASB 13.66]

For investment properties measured at fair value, the current use of the asset is considered the highest and best use. [AASB 13.93(i)]

The fair value of the Department's investment properties at 30 June 2018 have been arrived at on the basis of an independent valuation carried out by independent valuers, Norton and Prime Pty Ltd.

The valuation was determined by reference to market evidence of transaction prices for similar properties with no significant unobservable adjustments, in the same location and condition and subject to similar lease and other contracts. [AASB 13.93(d)]

Norton and Prime Pty Ltd has more than 20 years' experience valuing similar commercial properties in Melbourne's CBD.

Guidance – Fair value determination: Non-financial physical assets

AASB 13 acknowledges that, unlike a Level 1 input, adjustments to Level 2 inputs may be more common, but will vary depending on the factors specific to the asset or liability.

There are a number of reasons why an entity may need to make adjustments to Level 2 inputs. Adjustments to observable data from inactive markets, for example, might be required for timing differences between the transaction date and the measurement date, or differences between the asset being measured and a similar asset that was the subject of the transaction. In addition, factors such as the condition or location of an asset should also be considered when determining if adjustments to Level 2 inputs are warranted.

If an adjustment to a Level 2 input is significant to the entire fair value measurement, it may affect the fair value measurement's categorisation within the fair value hierarchy for disclosure purposes. If the adjustment uses significant unobservable inputs, it would need to be categorised within Level 3 of the hierarchy.

For example, at Table 17.7 and Table 17.8, the 'specialised land' has been categorised within Level 3 of the fair value hierarchy. This was a direct result of the significant adjustment to Level 2 inputs (observable indirectly through corroboration with market data) for community service obligation (CSO), which was derived based on significant unobservable inputs. This can be contrasted with categorisation of 'non-specialised land', where no significant adjustments in similar vein to CSO were made to Level 2 inputs.

Leasing transactions within the scope of AASB 117 [AASB 13.6]

The measurement and disclosure requirements of AASB 13 do not apply to leased property plant and equipment. The statement above with reference to the fair value of leases has been included in order to allow the user of the financial statements to reconcile the total value of 'land at fair value' as per Table 17.1 in the Model accounts to the detailed table as per Table 17.7 and Table 17.8 above.

Exemption from disclosing quantitative information of Level 3 inputs [AASB 13. Aus93.1]

AASB 13 provides an exemption for not-for-profit public sector entities from disclosing quantitative information of Level 3 inputs in relation to assets that are held primarily for their current service potential rather than to generate net cash inflows. As this exemption is not applicable for assets that are held for cash generating purposes, not-for-profit entities that have assets generating net cash inflows will still need to disclose quantitative information about the significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy.

Guidance – Fair value determination: Non-financial physical assets (continued)

Specifically, paragraph Aus93.1 exempts not-for-profit public sector entities from applying the requirements in AASB 13.93(d) if the entity has assets within the scope of AASB 116 *Property, Plant and Equipment* for which the future economic benefits are not primarily dependent on the asset's ability to generate net cash flows. Specifically, for fair value measurements that have been categorised within Level 3 of the fair value hierarchy, the entity will no longer be required to provide quantitative information about the 'significant unobservable inputs' used in the fair value measurement.

However, it is important to note entities will still be required to provide a description of the valuation techniques and the input used in the fair value measurement.

Changes in valuation techniques [AASB 13.66]

Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with AASB 108. However, entities are exempted from the disclosure requirements in paragraphs 39 and 40 of AASB 108 for changes in valuation techniques.

Valuation hierarchy: Entities need to use valuation techniques that are appropriate for the circumstances and where there is sufficient data available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. It is based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Identifying unobservable inputs (Level 3) fair value measurements

Level 3 fair value inputs are unobservable valuation inputs for an asset or liability. These inputs require significant judgement and assumptions in deriving fair value for both financial and non-financial assets.

Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability, i.e. it might be necessary to include a risk adjustment when there is significant measurement uncertainty. For example, when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value.

An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust this data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (e.g. an entity specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.

Fair value measurement expectation for Victorian public assets

Please see Appendix 7 for a summary table regarding fair value measurement expectations for the typical VPS assets.

Entities can refer to a guidance note on fair value measurement of non-financial physical assets which is available from www.dtf.vic.gov.au/financial-reporting-policy/financial-reporting-directions-and-guidance.

Reconciliation of Level 3 fair value [AASB 13.93(e)]

For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following: FRD 103G [pending]

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Guidance – Fair value determination: Non-financial physical assets (*continued*)

- (a) total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised;
- (b) total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised;
- (c) purchases, sales, issues and settlements (each of those types of changes disclosed separately); and
- (d) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

Exemption from disclosing sensitivity analysis for Level 3 fair value measurement

For all recurring non-financial assets measured at Level 3 fair value measurement and held not primarily dependent on the asset's ability to generate net cash inflows, an entity is no longer required to provide:

- a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement; and
- if there are interrelationships between the inputs and other unobservable inputs used in the fair value measurement, a description of the interrelationships and of how this might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Disclosures for assets stated at revalued amounts:

- (a) the effective date of the revaluation;
- (b) whether an independent valuer was involved;
- (c) [requirement deleted by IASB];
- (d) [deleted by the IASB];
- (e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
- (f) revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Notwithstanding AASB 116.77(e), in respect of not-for-profit entities, for each revalued class of property, plant and equipment, the requirement to disclose the carrying amount that would have been recognised had the assets been carried under the cost model does not apply.

Revaluation surplus of derecognised assets

A department may choose to transfer the revaluation surplus in respect of an item of non-financial physical asset to the accumulated funds when the asset is derecognised or as the asset is used. However, transfer of the revaluation surplus to accumulated funds is not mandatory.

Not-for-profit entities are not recommended to transfer revaluation surplus relating to derecognised assets to accumulated funds due to the relief provided to not-for-profit entities to offset revaluation and impairment adjustments on a class basis.

For-profit entities are encouraged to transfer the revaluation surplus in respect of an item of non-financial physical asset to accumulated funds when the asset is derecognised rather than as the asset is used.

Additional disclosures

Entities are encouraged to disclose the following information, as users of the financial statements may find the information relevant to their needs:

- (a) the carrying amount of temporarily idle property, plant and equipment;
- (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) the carrying amount of property, plant and equipment retired from active use and not classified as held-for-sale in accordance with AASB 5; and
- (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Compensation from third parties: If not disclosed separately in the comprehensive operating statement, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is recognised in the net result shall be disclosed.

Guidance – Fair value determination: Non-financial physical assets (continued)

Restrictive nature of assets: There may be restrictions on the use and/or disposal of cultural and heritage assets, Crown land and infrastructure. Disclosure should be made to identify those assets that are subject to restrictions and the nature of those encumbrances/restrictions.

Fair value measurement [AASB 13.86-89]

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the following assumptions:

- that the transaction to sell the asset or transfer the liability takes place either in the principal market (or the most advantageous market, in the absence of the principal market), either of which must be accessible to the entity at the measurement date; and
- that the entity uses the same valuation assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its HBU or by selling it to another market participant that would use the asset in its HBU.

Biological assets measured at fair value and their categorisation in the fair value hierarchy [AASB 13.93 (a)(b)]

(\$ thousand)

| 2018 | Carrying amount as at 30 June | Fair value measurement at end of reporting period using: | | |
|----------------|----------------------------------|---|------------------------|------------------------|
| | | Level 1 ^(a) | Level 2 ^(a) | Level 3 ^(a) |
| Nature forests | 2 749 | n.a. | 2 749 | .. |
| Livestock | 1 285 | n.a. | 1 285 | .. |
| 2017 | | | | |
| Nature forests | .. | .. | .. | .. |
| Livestock | .. | .. | .. | .. |

Note:

(a) Classified in accordance with the fair value hierarchy.

There have been no transfers between levels during the period. There were no changes in valuation techniques throughout the period to 30 June 2018. There are no comparative disclosures because the Department did not hold any biological assets at 30 June 2017. [AASB 13.93(c), AASB 13.66]

Biological assets comprise nature forests and livestock. Biological assets are measured at fair value less costs to sell, with any changes recognised in the comprehensive operating statement – other economic flows. Costs to sell include all costs that would be necessary to sell the assets, including freight and direct selling costs.

The fair value of a biological asset is based on its present location and condition. If an active market exists for a biological asset in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. Where access exists to different markets then the most relevant market is referenced.

In the event that market determined prices or values are not available for a biological asset in its present condition, the present value of the expected net cash flows from the asset, discounted at a current market determined rate is utilised to determine fair value.

Nature forests

The fair value for nature forests is determined using a discounted cash flow method whereby expected net future cash flows are discounted at a current market determined rate. After harvest, productive trees are treated as inventories. [AASB 141.12, AASB 141.13]

Livestock

For livestock, fair value is based on relevant market indicators, which include store cattle prices, abattoir market prices, and cattle prices received/quoted for the Department's cattle at the reporting date. Prices for cattle generally reflect the shorter term spot prices available in the market place and vary depending on the weight and condition of the animal.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Guidance – Biological assets

The determination of fair value for a biological asset may be facilitated by grouping biological assets according to significant attributes, for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing. [AASB 141.15]

Entities often enter into contracts to sell their biological assets at a future date. Contract prices are not necessarily relevant in determining fair value, because fair value reflects the current market in which a willing buyer and seller would enter into a transaction.

As a result, the fair value of a biological asset is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset may be an onerous contract. AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* applies to onerous contracts. [AASB 141.16]

If an active market exists for a biological asset in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used. [Now captured by AASB13.93]

If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

- (a) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;
- (b) market prices for similar assets with adjustment to reflect differences; and
- (c) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat. [Now captured by AASB13.93]

In some cases, the information sources listed above may suggest different conclusions as to the fair value of a biological asset. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates. [Now captured by AASB13.93]

In some circumstances, market determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market determined rate in determining fair value. [Now captured by AASB13.93]

The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition.

An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market. [Now captured by AASB13.93]

An entity does not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest. [AASB 141.22]

In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double counted or ignored. [Now captured by AASB13.93]

Cost may sometimes approximate fair value, particularly when:

- (a) little biological transformation has taken place since initial cost incurrence; or
- (b) the impact of the biological transformation on price is not expected to be material. [AASB 141.24]

Biological assets are often physically attached to land. Where there is no separate market for biological assets that are attached to land, but an active market may exist for combined assets, the fair value of the raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of the biological assets.

8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Non-financial physical assets classified as held for sale [AASB 13.93 (a)(b)]

The following table provides the fair value measurement hierarchy of the Department's non-financial physical assets held for sale.

| 2018 | Carrying amount as at 30 June | Fair value measurement at end of reporting period using: | | |
|---|----------------------------------|---|------------------------|------------------------|
| | | Level 1 ^(a) | Level 2 ^(a) | Level 3 ^(a) |
| Freehold land held for sale ^(b) | 753 | n.a. | 753 | .. |
| Investments and other financial assets ^(c) | 521 | n.a. | 521 | .. |

| 2017 | Carrying amount as at 30 June | Level 1 ^(a) | Level 2 ^(a) | Level 3 ^(a) |
|---|----------------------------------|------------------------|------------------------|------------------------|
| Freehold land held for sale ^(b) | 1 469 | n.a. | 1 469 | .. |
| Investments and other financial assets ^(c) | 1 575 | n.a. | 1 575 | .. |

Note:

(a) Classified in accordance with the fair value hierarchy.

(b) Freehold land held for sale is reported in Note 9.3.6.

(c) Investments and other financial assets are reported in Note 9.3.5.

Guidance – Non-financial physical assets classified as held for sale

AASB 5 clarifies that disclosure requirements in other standards do not apply to non-current assets held for distribution (or disposal groups) unless those standards explicitly refer to these assets and disposal groups. AASB 5.5B(b) states that disclosure requirements continue to apply for assets and liabilities that are not within the scope of the measurement requirements of AASB 5, but within the disposal group. The illustration above reflects this circumstance, as the unquoted available-for-sale equity instrument is a financial instrument as defined in AASB 139 and is, therefore, scoped out of the measurement requirements of AASB 5.

While the assets of discontinuing operations are fair valued on a non-recurring basis under AASB 13.93(a), fair value measurements of available-for-sale investments of the discontinuing operations are recurring since valuations are required at the end of each reporting period. As the illustrative example categorises 'investments and other financial assets' as Level 2 assets, reconciliation required for recurring Level 3 assets or liabilities is not illustrated in the Model. Refer to Note 5.1.3 and Note 8.1.3 for illustration on reconciliation of recurring Level 3 assets.

9. OTHER DISCLOSURES

Introduction

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of this financial report.

Structure

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9.1 Ex gratia expenses ^(a)

Ex gratia expenses are the voluntary payments of money or other non-monetary benefit (e.g. a write off) that is not made either to acquire goods, services or other benefits for the entity or to meet a legal liability, or to settle or resolve a possible legal liability of or claim against the entity.

| Source reference | (\$ thousand) | |
|--|---------------|-----------|
| | 2018 | 2017 |
| Forgiveness or waiver of debt ^(b) | 100 | .. |
| Compensation for economic loss ^(c) | 56 | .. |
| Property damage payments ^(d) | .. | 16 |
| FRD 11A Total ex gratia expenses ^(e) | 156 | 16 |

Notes:

(a) Includes ex gratia expenses for both individual items and in aggregate that are greater than or equal to \$5 000.

(b) Forgiveness of loans to several organisations under the 'Upgrade Your Technology' program, due to excessive hardship from severe flood damage in March [Refer to Guidance – Ex gratia expenses for more guidance on write-offs.]

(c) Payment to a commercial fishing operator who assisted authorities in a sea search and rescue.

(d) Payments for water damage to properties adjacent to the Victorian Highway site due to burst pipes in the March storms (not being in settlement of a legal liability).

(e) The total for ex gratia expenses is also presented in 'other operating expenses' of Note 3.4 Other operating expenses.

Guidance – Ex gratia expenses

The disclosure of ex gratia expenses is required for all entities that are defined as either a public body or a department under section 3 of the *Financial Management Act 1994*. Public bodies include the following:

- (a) public statutory authority;
- (b) a State business corporation or State body within the meaning of the *State Owned Enterprises Act 1992*;
- (c) Court Services Victoria;
- (d) a body, office or trust body that is:
 - (i) established by or under an Act or enactment; or
 - (ii) established by the Governor in Council or a Minister;
 and that is declared by the Minister, by notice published in the Government Gazette, to be a body or office to which Part 7 of *Financial Management Act 1994* applies.

Departments should include information on ex gratia expenses (greater or equal to \$5 000 or material in nature) with a description of the nature and purpose of the expenses, together with amounts written off that are considered as ex gratia expenses.

Materiality threshold of \$5 000 for ex gratia expenses disclosure

An entity shall apply the ex gratia expenses materiality threshold of \$5 000 to both individual items and in aggregate, unless there are factors (e.g. material by nature) that make an expense item of less than \$5 000 material in the circumstances.

Write-offs captured as ex gratia expenses

To determine whether a write-off meets the scope of 'ex gratia' under FRD 11A *Disclosure of ex-gratia expenses*, it is important to understand the underlying purpose of the write-off.

Guidance – Ex gratia expenses (continued)

For trade receivable write-offs, while the reduction in economic benefits (i.e. receivable) is driven by AASB 136 *Impairment of Assets*, the entity needs to consider whether there is still an intention to pursue the recovery of the receivables from the customer.

If the entity writes off a trade receivable but still has and intends to keep the legal entitlement to payment for services rendered, a write-off to debtors under such circumstances does not equate to a waiver of the debt. In this instance, trade receivable write-offs would not be considered as 'ex gratia' expenses.

Conversely, if the entity has voluntarily decided to waive the legal entitlement to the payment, it is reasonable to consider this as a 'benefit' to the debtor, and therefore such a write-off should be disclosed as 'ex gratia' expenses for reporting purposes under FRD 11A.

9.2 Other economic flows included in net result

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. Other gains/(losses) from other economic flows include the gains or losses from:

- the revaluation of the present value of the long service leave liability due to changes in the bond interest rates; and
- reclassified amounts relating to available-for-sale financial instruments from the reserves to net result due to a disposal or derecognition of the financial instrument. This does not include reclassification between equity accounts due to machinery of government changes or 'other transfers' of assets.

(\$ thousand)

| Source reference | | 2018 | 2017 |
|------------------|---|----------------|----------------|
| AASB 101.97 | Net gain/(loss) on non-financial assets | | |
| AASB 136.126(a) | Impairment of property plant and equipment (including intangible assets) | (3 025) | 115 |
| | Impairment of biological assets | .. | .. |
| AASB 101.98(a) | Write down of inventory | (178) | (19) |
| | Revaluation of investment property | (3 485) | 450 |
| AASB 141.40 | Net gain arising from changes in fair value less estimated point-of-sale costs of biological assets | 1 476 | .. |
| AASB 101.98(c) | Net gain on disposal of property plant and equipment | 171 | 1 019 |
| AASB 101.98 (d) | Net gain on disposal of investment properties | (120) | 240 |
| | Total net gain/(loss) on non-financial assets | (5 161) | 1 805 |
| | Net gain/(loss) on financial instruments | | |
| | Impairment of: ^(a) | | |
| | Loans and receivables | (485) | (341) |
| | Available-for-sale financial assets transferred from revaluation surplus | (920) | .. |
| AASB 7.20 (e) | Net FX gain/(loss) arising from foreign cash held | (385) | 105 |
| | Net FX gain/(loss) arising from financial instruments | (86) | 55 |
| | Bad debts written off unilaterally | 75 | 50 |
| | Net gain/(loss) on disposal of financial instruments | .. | .. |
| | Net gain/(loss) arising from revaluation of financial assets at fair value – market risk | 30 | 321 |
| | Net gain/(loss) arising from revaluation of financial assets at fair value – credit risk | 35 | 79 |
| | Interest on government advances | (4 155) | (4 240) |
| | Total net gain/(loss) on financial instruments | (5 891) | (3 971) |
| | Share of net profits/(losses) of associates and joint entities, excluding dividends | | |
| | Share of net profits/(losses) of associates, excluding dividends | 1 055 | 652 |
| | Share of net profits/(losses) of joint entities, excluding dividends | 231 | 745 |
| | Total share of net profits/(losses) of associates and joint entities, excluding dividends | 1 286 | 1 397 |
| | Other gains/(losses) from other economic flows | | |
| | Net gain/(loss) arising from revaluation of long service liability ^(b) | (2 846) | (2 009) |
| AASB 137.60 | Unwinding of other provision | (49) | (39) |
| | Total other gains/(losses) from other economic flows | (2 895) | (2 047) |

Notes:

(a) Including increase/(decrease) in provision for doubtful debts and bad debts from other economic flows – refer to Note 6.1.

(b) Revaluation gain/(loss) due to changes in bond rates.

[Please note that revaluation gain/(loss) on the long service leave liability due to the changes in the discount bond rates is included in other economic flows.]

9. OTHER DISCLOSURES

Guidance – Other economic flows

Disclosure requirements

To align with whole of government reporting, which complies with AASB 1049 requirements, departments are required to classify items of expense between transactions and other economic flows as appropriate. Departments should refer to the Glossary of terms and style conventions (Note 9.14 and Note 9.15) in the Model for definitions on 'transactions' and 'other economic flows', and refer to Appendix 8 for the Practical classification guide between transactions and other economic flows for further examples.

9.3 Discontinued operations and non-current assets held for sale [\[AASB 5.41, 101.98\(e\)\]](#)

9.3.1 Disposal of activities of the Commissioner for Technology

On 28 March 2018, the Minister for the Department, the Hon. John Bristol, MP approved a sale plan to dispose of the activities of the Commissioner for Technology under the strategic policy advice output to the third parties external to Victorian Government. The proceeds of the sale substantially exceeded the book value of the related net assets.

The disposal of Commissioner for Technology activities is consistent with the Department's long-term policy to promote the adoption of new technology and monitor its appropriate use. The disposal was completed on 30 June 2018, being the date control of the officer passed to the acquirer.

9.3.2 Plan to dispose of Gene Services business

On 30 November 2017, the Minister for the Department, the Hon. John Bristol, MP announced a plan to dispose of the Department's Gene Services business to parties outside of the Victorian Government Sector, which involves provision of information technology and telecommunication systems for new biological technology. The disposal is consistent with the Department's long-term policy to focus its activities in the information technology and telecommunications services industry. The Department is actively seeking a buyer for its Gene Services business and expects to complete the sale by 31 July 2018.

Reclassification of these operations as held for sale [\[AASB 5.33\(b\), 34 and 38\]](#)

On initial reclassification of these operations as held for sale, the Department has not recognised any impairment losses.

The results of the discontinued operations, which have been included in the comprehensive operating statement are as set out. The comparative net result and cash flows from discontinued operations have been represented to include those operations classified as discontinued in the current period.

Amounts recognised in other comprehensive income relating to discontinued operations reflect cumulative income or expense recognised in other comprehensive income that are attributable to the discontinued operation.

9.3.3 Net result from discontinued operations [\[AASB 5.33\(b\) and 34\]](#)

| | (\$ thousand) | |
|--|-----------------|-----------------|
| <i>Source reference</i> | 2018 | 2017 |
| AASB 5.33(b) and 34 Income from transactions | | |
| Output appropriations | 10 426 | 14 242 |
| Special appropriations | 1 781 | 2 401 |
| Interest | 245 | 578 |
| Sale of goods and services | 278 | 532 |
| Grants | 87 | 75 |
| Fair value of assets and services received free of charge or for nominal consideration | .. | 58 |
| Other income | 125 | 414 |
| Total income from transactions | 12 942 | 18 300 |
| Total expenses from transactions | (10 269) | (12 970) |
| Net result from transactions (net operating balance) | 2 673 | 5 330 |
| Other economic flows included in net result | | |
| Net gain/(loss) on non-financial assets | 43 | 329 |
| Net gain/(loss) on financial instruments | (440) | (863) |
| Other gains/(losses) from other economic flows | (1 046) | (941) |
| Total other economic flows included in net result | (1 444) | (1 475) |
| Net result from discontinued operations | 1 229 | 3 856 |

9.3.4 Net cash flows from discontinued operations [AASB 5.33(c)]

(\$ thousand)

| | 2018 | 2017 |
|--|--------------|--------------|
| Net cash flows from operating activities | 1 326 | 6 655 |
| Net cash flows from investing activities | (1 376) | (2 484) |
| Net cash flows from financing activities | (325) | (116) |
| Net cash flows from discontinued operations | (376) | 4 055 |

9.3.5 Discontinued operations: Carrying amounts of assets and liabilities (major classes) comprising the operations classified as held for sale [AASB 5.38](\$ thousand)¹

| | 2018 | 2017 |
|--|----------------|----------------|
| Cash and deposits | 5 254 | 1 283 |
| Receivables | 2 797 | 4 736 |
| Investments and other financial assets | 521 | 5 737 |
| Inventories | 3 574 | 7 406 |
| Property, plant and equipment | 3 201 | 7 194 |
| Total assets classified as held for sale | 15 353 | 26 356 |
| Payables | (378) | (2 713) |
| Borrowings | (860) | (2 567) |
| Provisions | (3 149) | (3 680) |
| Other liabilities | (51) | (20) |
| Total liabilities classified as held for sale | (4 438) | (8 980) |
| Net assets held for sale | 10 915 | 17 376 |

9.3.6 Non-financial assets held for sale [AASB 5.38, 5.41]

In addition to the assets and liabilities disclosed above as part of the disposal groups, the following non-financial assets held for sale exist at the reporting date:

(\$ thousand)

| | 2018 | 2017 |
|---|--------------|---------------|
| <i>Current assets:</i> | | |
| Freehold land held for sale ^(a) | 753 | 1 469 |
| <i>Disposal group assets:</i> | | |
| Assets of discontinued operations (Note 9.3.5) | 6 028 | 13 130 |
| Total non-financial physical assets and disposal group classified as held for sale | 6 781 | 14 599 |

Note:

(a) The Department intends to dispose of freehold land it no longer utilises in the next 10 months. The land was previously vacant land used as a storage site. A search is under way for a buyer. No impairment loss was recognised on reclassification of the freehold land as held for sale or at the end of the reporting period.

Measurement of non-financial physical assets (including disposal group assets)

Non-financial physical assets (including disposal group assets) are treated as current and classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when:

- the asset is available for immediate use in the current condition; and
- the sale is highly probable and the asset's sale is expected to be completed within 12 months from the date of classification.

These non-financial physical assets, related liabilities and financial assets are measured at the lower of carrying amount and fair value less costs to sell, and are not subject to depreciation or amortisation.

Freehold land held for sale is carried at fair value less costs to disposal. Refer to Note 8.3 for the valuation technique applied to non-specialised land.

The discontinued operation includes an investment in unlisted securities with a carrying amount of \$521 000 in 2018. These are classified as available-for-sale and carried at fair value through other economic flows – other comprehensive income. The Department did not pledge the financial assets nor receive any collateral for it. For details on the recognition, measurement valuation techniques and inputs used for these assets, refer to Note 8.3.

9. OTHER DISCLOSURES

Guidance – Discontinued Operations and non-current assets held for sale

Scope: The illustrated disclosures are for a discontinued operation that is material to the economic entity and where the operation was classified as held for sale in the previous reporting period and was sold during the current reporting period. The disclosures will need to be amended to cover the specific disclosure requirements of AASB 5 relevant to the circumstances of each discontinued operation.

Disclosure requirements of other standards do not apply to assets held for sale or discontinued operations unless those standards require: [AASB 5.5B]

- specific disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
- disclosures about measurement of assets and liabilities in a disposal group that are not in the scope of the measurement requirement of AASB 5 and such disclosures are not already provided in the other notes to the financial statements.

Note machinery of government changes are not discontinued operations, and should be reported separately. Therefore, AASB 5 requirements do not apply to such administrative changes. [AASB 5.Aus2.1]

Discontinued administered activity: An administered activity of a government department does not give rise to income and expenses of the department reporting the administered activity and therefore, from the point of view of the department, the discontinuance of an administered activity does not give rise to a discontinued operation. However, if a government was to discontinue an activity that one of its departments had disclosed as an administered activity, from the point of view of that government, the discontinuance may constitute a discontinued operation.

Definition of a discontinued operation: A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

- (a) represents a separate major line of business or geographical area of operations; or
- (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (c) is a subsidiary acquired exclusively with a view to resale. [AASB 5.32]

A component of an entity comprises of operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash generating unit or a group of cash generating units while being held for use. [AASB 5. App A]

Disclosure requirements

Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed. [AASB 5.35]

If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations in accordance with AASB 5 paragraphs 33-35 shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been represented. [AASB 5.36]

Where a commitment to a sale plan involves the loss of control of a subsidiary, disclosure shall be provided for the information required as per AASB 5.33-36 when the subsidiary is a disposal group that meets the definition of a discontinued operation. [AASB 5.36A]

Amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods shall not be reclassified or represented to reflect the classification in the statement of financial position for the latest period presented. [AASB 5.40]

When an entity decides to change the plan to sell such that the non-current assets (or disposal group) no longer meet the criteria of held for sale, the non-current asset (or disposal group) shall cease to be classified as held for sale.

In the period where the non-financial physical assets (or disposal group) cease to be classified as held for sale, an entity shall disclose a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented. [AASB 5.42]

In addition, where there is a tax implication related to a discontinued operation, the entity should disclose the tax expense relating to:

- the gain or loss on discontinuance; and
- the net result from the ordinary activities of the discontinued operation for the period together with the corresponding amounts for each prior period presented. [AASB 112.81(h)]

Guidance – Discontinued Operations and non-current assets held for sale (continued)**Administered activity classified as held for sale**

Assets classified as non-current in accordance with AASB 101 shall not be reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with this standard. Assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resell shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this standard.

As with discontinued operations, machinery of government changes do not meet the definition of non-current assets and disposal group assets held for sale. Therefore, AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* requirements do not apply to such administrative changes.

An administered activity of a government department does not give rise to income and expenses of the department reporting the administered activity and therefore, from the point of view of the department, the discontinuance of an administered activity does not give rise to a discontinued operation. However, if a government was to discontinue an activity that one of its departments had disclosed as an administered activity, from the point of view of that government, the discontinuance may constitute a discontinued operation.

Classification of non-financial physical asset as held for sale

An entity shall classify a non-financial physical asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. Please refer to Appendix 11 *When to account for surplus assets as 'held for sale'* for more information.

Fair value measurement for non-financial physical assets classified as held for sale

AASB 5 clarifies that disclosure requirements in other standards do not apply to non-current assets held for distribution (or disposal groups) unless those standards explicitly refer to these assets and disposal groups. AASB 5.5B(b) states that disclosure requirements continue to apply for assets and liabilities that are not within the scope of the measurement requirements of AASB 5, but within the disposal group. The illustration above reflects this circumstance, as the unquoted available-for-sale equity instrument is a financial instrument as defined in AASB 139 and is, therefore, scoped out of the measurement requirements of AASB 5.

While the assets of discontinuing operations are fair valued on a non-recurring basis under AASB 13.93(a), fair value measurements of available-for-sale investments of the discontinuing operations are recurring since valuations are required at the end of each reporting period. As the illustrative example in Note 8.3 categories 'investments and other financial assets' as Level 2 assets, reconciliation required for recurring Level 3 assets or liabilities is not illustrated in the Model. Refer to Note 8.3 for illustration on reconciliation of recurring Level 3 assets.

9. OTHER DISCLOSURES

9.4 Reserves

(\$ thousand)

| Source reference | | 2018 | 2017 |
|------------------|--|--------------|--------------|
| AASB 101.106(d) | Physical asset revaluation surplus ^(a) | | |
| | Balance at beginning of financial year | 3 759 | 2 626 |
| | Revaluation increments/(decrements) | 7 903 | 2 989 |
| AASB 136.126(c) | Impairment losses | (500) | (164) |
| AASB 136.126(d) | Reversals of impairment losses | .. | .. |
| | Transfers to accumulated surplus | (637) | (1 822) |
| | Share of increments in revaluation surplus attributable to joint ventures | .. | .. |
| | Share of increments in revaluation surplus attributable to associates | 210 | 130 |
| | Disposal or transferred out | (3 396) | .. |
| | Balance at end of financial year | 7 338 | 3 759 |
| AASB 101.106(d) | Financial assets available-for-sale revaluation surplus ^(b) | | |
| | Balance at beginning of financial year | 1 723 | 577 |
| AASB 7.20(a)(ii) | Valuation gain/(loss) recognised | (1 250) | 996 |
| AASB 7.20(a)(ii) | Cumulative gain/(loss) transferred to net result on impairment of financial assets | .. | .. |
| | Share of increments in revaluation surplus attributable to joint ventures | .. | .. |
| | Share of increments in revaluation surplus attributable to associates | 50 | 150 |
| | Disposal or transferred out | (323) | .. |
| | Balance at end of financial year | 200 | 1 723 |
| | Net changes in reserves | 7 538 | 5 482 |

Notes:

(a) The physical assets revaluation surplus arises on the revaluation of infrastructure, land and buildings. [AASB 101.79(B)]

(b) The financial assets available-for-sale revaluation surplus arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, a portion of the revaluation surplus which relates to that financial asset is effectively realised, and is recognised in the net result. Where a revalued financial asset is impaired, that portion of the revaluation surplus which relates to that financial asset is recognised in the net result. [AASB 101.79(B)]

Guidance – Reserves

The illustrated requirement to show movements in reserves from opening balance to closing balance shall apply to each reserve, including general reserves. In providing a description of the nature and purpose of the reserves, it would be appropriate to refer to any restrictions on their distribution or any other important characteristics of the reserves.

Please note, in accordance with amending standard AASB 2009-6, the term 'revaluation reserve' is now to be referred to as the 'revaluation surplus'.

The Model does not include a description of the nature of 'other reserves' as the reason for creating it will be rare and specific to each department. Therefore, if used, agencies are required to provide a description of the nature and purpose of the 'other reserves'. [AASB 101.79(b)]

Amounts recognised in other comprehensive income relating to non-current assets classified as held for sale

An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale. [AASB 5.38]

Dividends

An entity must disclose, in the notes only, any amount of dividends proposed or declared before the financial statements are authorised for issue but not recognised as a distribution during the period.

9.5 Entities consolidated pursuant to section 53(1)(b) of the FMA

The following three entities have been consolidated into the department's financial statements pursuant to a determination made by the Minister for Finance under section 53(1)(b) of the FMA:

- Gene Sciences Victoria;
- The Office of the Commissioner of New Technology; and
- Innovation Victoria.

The financial effects of each of those entities were not material to the departmental consolidated group. However, the financial effects of those entities in aggregate were material to the departmental consolidated group. Therefore, those entities are reported in aggregate in the table below.

(\$ thousand)

| | Department of Technology (DoT) | | Material section 53(1)(b) entity ^(a) | | Other section 53(1)(b) entities ^(b) | | Eliminations and adjustments | | DoT consolidated group | |
|--------------------------------|--------------------------------|---------|---|------|--|--------|------------------------------|------|------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Total income from transactions | 103 068 | 82 723 | .. | .. | 4 406 | 3 537 | .. | .. | 107 474 | 86 260 |
| Net result from transactions | 25 342 | 8 132 | .. | .. | 881 | 707 | .. | .. | 26 223 | 8 839 |
| Total assets ^(c) | 203 179 | 202 730 | .. | .. | 35 855 | 25 056 | .. | .. | 239 034 | 227 787 |
| Total liabilities | 95 649 | 110 569 | .. | .. | 1 952 | 2 257 | .. | .. | 97 601 | 112 826 |

Notes:

(a) Each of the material entities are reported individually.

(b) Other non-material entities that are material in aggregate are reported in aggregate.

(c) Total assets for other section 53(1)(b) entities in aggregate were material to the DoT consolidated group.

Guidance – Entities consolidated pursuant to section 53(1)(b) of the FMA

Departments shall disclose total income from transactions, net result from transactions, total assets and total liabilities for each of material entities that have been consolidated into their financial statements, pursuant to section 53(1)(b) of the FMA, in a relevant note to their financial statements.

Where those entities are not material individually but material in aggregate, departments shall report them in aggregate.

9. OTHER DISCLOSURES

9.6 Correction of a prior period error

Sample disclosure

This note has been included as an example only to illustrate the disclosure of a restatement of prior period figures due to a material error correction. This note should be omitted if not relevant. [AASB 108.49]

The investment properties note has been used in the Model to illustrate a third balance sheet required to correct an error from a previous year. The error occurred because the Department of Technology did not recognise an investment property. [AASB 101.39]

The Department has identified two prior period errors. These are explained below and have since been adjusted for the error and restated each of the affected financial statements for the 2017 financial year, as shown in the tables below.

9.6.1 Investment property not recognised

During the 2016-17 financial year, the Department did not recognise an investment property, which was contributed to it for nil consideration. This error had the effect of understating investment properties and income for the year ended 30 June 2017 by \$2 500 000. The error also had the effect of understating investment properties and accumulated surplus as at 30 June 2017 by \$2 500 000.

9.6.2 Error in not consolidating a controlled entity

Innovation Victoria was established on 1 July 2016 as a new entity of the Department of Technology under the *Innovation Victoria Act 2016*. The Department determined that it controlled Innovation Victoria based on the control criteria in AASB 10 but due to an inadvertent human error, the Department did not include Innovation Victoria in its group financial statements for the 2016-17 reporting period.

Impact of correction of an error on the consolidated operating statement (\$ million)

| | For the period ended 30 June 2018 | For the period ended 30 June 2017 (restated) | Consolidation of Innovation Victoria (100% owned) | For the period ended 30 June 2017 as previously presented |
|---|-----------------------------------|--|---|---|
| Interest | 3 864 | 2 897 | (50) | 2 947 |
| Sale of goods and services | 1 839 | 1 346 | 50 | 1 296 |
| Other income | 101 771 | 82 017 | - | 82 017 |
| Total income from transactions | 107 474 | 86 260 | - | 86 260 |
| Employee expenses | (13 767) | (10 970) | 1 950 | (12 920) |
| Depreciation | (15 099) | (12 157) | 900 | (13 057) |
| Interest expense | (2 366) | (2 336) | 1 050 | (3 386) |
| Other operating expenses | (50 020) | (51 958) | - | (51 958) |
| Total expenses from transactions | (81 252) | (77 421) | 3 900 | (81 321) |
| Net result from transactions (net operating balance) | 26 223 | 8 839 | - | 4 939 |
| Share of net profits/(losses) of associates and joint entities, excluding dividends | 1 286 | 1 397 | (3 900) | 5 297 |
| Other gains/(losses) from other economic flows | (13 947) | (4 213) | - | (4 213) |
| Total other economic flows included in net result | (12 661) | (2 816) | (3 900) | 1 084 |
| Net result from continuing operations | 13 562 | 6 023 | - | 6 023 |
| Net result from discontinued operations | 1 229 | 3 856 | - | 3 856 |
| Net result | 14 790 | 9 879 | - | 9 879 |
| Total other economic flows – other comprehensive income | 6 413 | 4 101 | - | 4 101 |
| Comprehensive result | 21 203 | 13 980 | - | 13 980 |

Impact of correction of an error on the consolidated balance sheet

(\$ million)

| Assets | As at 30 June 2018 | As at 30 June 2017 (restated) | Consolidation of Innovation Victoria (100% owned) | As at 30 June 2017 (as previously reported) |
|--|-----------------------|----------------------------------|---|---|
| Cash and deposits | 59 528 | 48 648 | (800) | 47 848 |
| Receivables | 36 045 | 20 544 | (2 000) | 22 544 |
| Investments accounted for using equity method | 5 187 | 6 112 | 6 000 | 112 |
| Other financial assets | 22 548 | 28 488 | - | 28 488 |
| Total financial assets | 123 308 | 103 792 | 4 800 | 98 992 |
| Inventories | 12 056 | 19 733 | - | 19 733 |
| Property, plant and equipment | 83 044 | 76 807 | 5 200 | 71 607 |
| Other non-financial assets | 22 826 | 27 455 | - | 27 455 |
| Total non-financial assets | 117 926 | 123 995 | 5 200 | 118 795 |
| Total assets | 241 234 | 227 787 | 10 000 | 217 787 |
| Liabilities | | | | |
| Payables | 17 591 | 16 704 | 10 000 | 6 704 |
| Other liabilities | 80 010 | 96 122 | - | 96 122 |
| Total liabilities | 97 601 | 112 826 | 10 000 | 102 826 |
| Equity | | | | |
| Accumulated surplus/(deficit) | 78 633 | 71 133 | - | 71 133 |
| Physical asset revaluation surplus | 7 338 | 3 759 | - | 3 759 |
| Financial assets available-for-sale | 200 | 1 723 | - | 1 723 |
| Contributed capital | 57 460 | 38 345 | - | 38 345 |
| Net worth | 143 632 | 114 960 | - | 114 960 |

Impact of correction of an error on the consolidated cash flow statement

(\$ million)

| | As at 30 June 2018 | As at 30 June 2017 (restated) | Consolidation of Innovation Victoria (100% owned) | As at 30 June 2017 (as previously reported) |
|---|-----------------------|----------------------------------|---|---|
| Receipts from government | 78 344 | 87 135 | (500) | 87 635 |
| Receipts from other entities | 5 536 | 4 373 | (1 400) | 5 773 |
| Interest received | 1 749 | 1 606 | - | 1 606 |
| Dividends received | 1 698 | 1 611 | - | 1 611 |
| Other receipts | 516 | 262 | - | 262 |
| Total receipts | 87 843 | 94 987 | (1 900) | 96 887 |
| Payments of grants and other transfers | (36 227) | (47 011) | - | (47 011) |
| Payments to suppliers and employees | (22 979) | (19 167) | (1 500) | (20 667) |
| GST paid to the ATO | (3 055) | (3 497) | - | (3 497) |
| Capital asset charge payments | (1 567) | (952) | - | (952) |
| Interest and other costs of finance paid | (2 427) | (2 507) | - | (2 507) |
| Other payments | (6 382) | (3 200) | - | (3 200) |
| Total payments | (72 637) | (76 334) | 14 500 | (77 834) |
| Net cash flows from operating activities | 15 207 | 18 654 | (3 400) | 22 054 |
| Net cash flows from/(used in) investing activities | (25 403) | (23 124) | - | (23 124) |
| Net cash flows from/(used in) financing activities | 30 607 | 13 711 | - | 13 711 |
| Net increase/(decrease) in cash and cash equivalents | 20 411 | 9 241 | (3 400) | 12 641 |
| Cash and cash equivalents at beginning of financial year | 44 494 | 35 094 | 13 000 | 22 094 |
| Effect of exchange rate on cash held in foreign currency | (471) | 160 | (8 800) | 8 960 |
| Cash and cash equivalents at end of financial year | 64 434 | 44 494 | 800 | 43 694 |

9. OTHER DISCLOSURES

Guidance – Correction of prior period errors and changes in accounting policy and accounting estimates

Prior period errors

Material prior period errors shall be retrospectively corrected in the first complete set of financial statements authorised for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. [AASB 108.42]

Exceptions to this will be made to the extent that it is impracticable to determine the:

- (a) period specific effects of an error on comparative information for one or more prior periods presented. The entity shall then restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period); and/or [AASB 108.44]
- (b) cumulative effect, at the beginning of the current period, of an error on all prior periods. The entity shall then restate the comparative information to correct the error prospectively from the earliest date practicable. [AASB 108.45]

The correction of a prior period error is excluded from the net result for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable. [AASB 108.46]

Changes in accounting policy

A change in accounting policy resulting from the initial application of an AAS shall be applied in accordance with the transitional provisions of that AAS. Where specific transitional provisions are not included, the change shall be applied retrospectively. [AASB 108.19]

Where a change in accounting policy is applied retrospectively, the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented shall be adjusted as if the policy had always been applied, except to the extent it is impracticable to do so. [AASB 108.22]

When there is a change in accounting policy that requires the changes to be applied retrospectively, entities must disclose the amount of the adjustment relating to the previous periods to the extent practicable. [AASB 108.28 9(g)]

Third balance sheet: When an accounting policy is applied retrospectively, the correction of an error is made retrospectively and/or a reclassification of items is made in the financial statements, the public sector entity will be required to present, as a minimum, three balance sheets.

The balance sheets to be presented are:

- at the end of the current period;
- at the end of the previous period; and
- at the beginning of the earliest comparative period.

However, a third balance sheet is not required when the adjustment is immaterial to the financial position at the beginning of the preceding period. [AASB 101.40A]

Inappropriate accounting policies not rectified by disclosure [AASB 101.18]

Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.

Guidance – Correction of prior period errors and changes in accounting policy and accounting estimates (continued)
Voluntary changes in accounting policies [AASB 108.14]

An entity shall change an accounting policy only if the change:

- is required by an AAS; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

When a voluntary change in accounting policy has an effect on the current period or any prior period, or would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose: [AASB 108.29]

- (a) the nature of the change in accounting policy;
- (b) the reasons why applying the new accounting policy provides reliable and more relevant information;
- (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement's line item affected; and
 - (ii) if AASB 133 applies, for basic and diluted earnings per share;
- (d) the amount of the adjustment relating to periods before those presented, to the extent practicable;
- (e) if retrospective application of the accounting policy is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Effect of changes in accounting policy of equity [AASB 101.106(b)]

For each component of equity affected by the change in accounting policy, AASB 101 requires that the entity discloses the effects of retrospective application or retrospective restatement recognised in accordance with AASB 108.

Change in accounting estimates [AASB 116.76]

An entity shall disclose the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

- (a) residual values;
- (b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;
- (c) useful lives; and
- (d) depreciation methods.

Recognition [AASB 108.36-37]

The effect of a change in an accounting estimate, shall be recognised prospectively by including it in the net result in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

Except to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

9. OTHER DISCLOSURES

Guidance – Correction of prior period errors and changes in accounting policy and accounting estimates (continued)

Disclosure requirements [AASB 108.39-40, AASB 116.76]

An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

If the amount of the effect in future periods is not disclosed because estimating it is impracticable, this fact shall be disclosed.

Where a change in an accounting estimate affects the current reporting period only, the effect of the change shall be recognised in the net result in the reporting period in which the accounting estimate is revised. [AASB 108.36(a)]

Where the change in an accounting estimate affects both the current and future reporting periods, the effect of the change shall be recognised in the net result in the reporting period of the revision and in future reporting periods. [AASB 108.36(b)]

For property, plant and equipment, disclosure of a change in an accounting estimate may arise from changes in estimates with respect to:

- (a) residual values;
- (b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;
- (c) useful lives; and
- (d) depreciation methods.

If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the annual reporting period but a separate set of financial statements is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note in the annual financial statements for that annual reporting period.

Sample disclosure

This note has been included as an example only and should be used only if there is a change in accounting policy.

Reassessment of estimated useful lives of assets

During the financial year, the Department reassessed the estimated total useful lives of certain items of plant and equipment used in [specify where]. The net financial effect of this reassessment in the current financial year was an increase in depreciation expense of the Department of [xx].

Assuming the assets are held until the end of their estimated useful lives, depreciation of the departmental assets for the next four years in relation to these assets will be increased by the following amounts:

| (\$ thousand) | |
|---------------------|----|
| Year ending 30 June | xx |
| 2017 | xx |
| 2018 | xx |
| 2019 | xx |
| 2020 | xx |

9.7 Responsible persons

In accordance with the Ministerial Directions issued by the Minister for Finance under the *Financial Management Act 1994* (FMA), the following disclosures are made regarding responsible persons for the reporting period.

Names

The persons who held the positions of Ministers and Accountable Officers in the Department are as follows:

| | | |
|----------------------------|------------------------------|-----------------------------|
| Minister for Technology | The Hon. John Bristol MP | 1 July 2017 to 30 June 2018 |
| Minister for Biotechnology | The Hon. Laura Toddington MP | 1 July 2017 to 30 June 2018 |
| Secretary | Ms Jane Smith | 1 July 2017 to 30 June 2018 |

Remuneration

Remuneration received or receivable by the Accountable Officer in connection with the management of the Department during the reporting period was in the range: \$460 000 – \$469 000 (\$450 000 – \$459 000 in 2016-17).

Guidance –Responsible persons

The disclosure requirements of FRD 21C *Disclosures of responsible persons and executive officers in the financial report* issued by the Minister for Finance recognise that responsible persons, such as ministers, accountable officers and executive officers have significant responsibility for the management of a department's operations. To that end, they have an obligation to disclose information relating to those occupying management roles, including disclosure in the financial statements of details regarding their remuneration, transactions and loans with the department, which discharges their accountability.

Remuneration includes all employee benefits (as defined in AASB 119 *Employee Benefits*), which are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered. It also includes amounts paid on behalf of a parent of the entity in respect of the entity. Accordingly, remuneration needs to be determined on an accrual basis.

Ministers may have different responsibilities or interests that can cause ethical challenges in their public role. Their first responsibility is to act in the public interest, and not to promote their own private interests. They must also follow a code of conduct and publicly give details of their interests. These interests are often called 'pecuniary interests'. In respect of related party disclosures, ministers must declare their pecuniary interests, which are included in a register of members' interests.

For further disclosure guidance in relation to responsible persons, please refer to FRD 21C.

9.8 Remuneration of executives

9.8.1 Remuneration of executives

The number of executive officers, other than ministers and accountable officers, and their total remuneration during the reporting period are shown in the table on the following page. Total annualised employee equivalents provides a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits (as defined in AASB 119 *Employee Benefits*) in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered. Accordingly, remuneration is determined on an accrual basis, and is disclosed in the following categories.

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long service benefits or deferred compensation.

Termination benefits include termination of employment payments, such as severance packages.

Share-based payments an agreement between the entity and the employee that entitles them to receive cash or other assets for amounts that are based on the price of shares/share options provided specified vesting conditions, if any, are met (*Please delete if not applicable*).

Several factors affected total remuneration payable to executives over the year. A number of employment contracts were completed and renegotiated and a number of executive officers retired, resigned or were retrenched in the past year. This has had a significant impact on remuneration figures for the termination benefits category. [FRD 21C]

9. OTHER DISCLOSURES

(\$ thousand)

| Remuneration of executive officers (including Key Management Personnel disclosed in Note 9.9) ^(a) | Total remuneration | |
|---|--------------------|--------------|
| | 2018 | 2017 |
| Short-term employee benefits | 5 609 | 5 274 |
| Post-employment benefits | 1 260 | 1 177 |
| Other long-term benefits | 1 726 | 1 096 |
| Termination benefits | 320 | 154 |
| Share-based payments | n.a. | n.a. |
| Total remuneration^(a) | 8 916 | 7 701 |
| Total number of executives | 79 | 77 |
| Total annualised employee equivalents^(b) | 76.2 | 75.8 |

Notes:

(a) The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 Related Party Disclosures and are also reported within the related parties note disclosure (Note 9.9). This footnote only applies for entities that may have executives who also meet the definition of a KMP under AASB 124.9, to provide clarification to readers so that remuneration is not misinterpreted or double-counted. This circumstance may not be applicable to all entities and should only be included where appropriate.

(b) Annualised employee equivalent is based on the time fraction worked over the reporting period.

Guidance – Remuneration of executives

Remuneration includes all employee benefits (as defined in AASB 119 *Employee Benefits*), which are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered. It also includes amounts paid on behalf of a parent of the entity in respect of the entity.

The objective of the remuneration disclosure is to capture the total remuneration attributable to the entity's executives for the reporting period. As a result, amounts reported should reflect the expenses recognised in the entity's Statement of Comprehensive Income (in line with the relevant accounting standards) for the reporting period.

For guidance on how to disclose an executive's total remuneration package and other specific employee benefits, refer to the 'Reporting of remuneration in accordance with AASB 124 Related Party Disclosures' document available on the DTF website (<http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-reporting-policy/AASB-124-Related-Party-Disclosures>).

Remuneration is disclosed in the financial statements based on the nature of the payment in accordance with AASB 124. The disclosure categories include:

- **Short-term employee benefits:** wages, salaries, paid annual and sick leave, profit-sharing and bonuses (if payable within 12 months of the end of the period), and non-monetary benefits such as car (parking, e-tags and chauffeur allowances), medical care, accommodation (housing) or relocation benefits, and free/subsidised goods or services.
- **Post-employment benefits:** pensions, post-employment life insurance or health care, superannuation entitlements and other retirement benefits.
- **Other long-term employee benefits:** long service leave, sabbatical leave, jubilee or other long service benefits, long-term disability benefits, deferred compensation and profit-sharing and bonuses (not payable wholly within 12 months).
- **Termination benefits:** employee benefits provided on termination of employment as a result of either an entity's decision to terminate an employee before the normal retirement date, or an employee's decision to accept an offer of benefits in exchange for termination of employment.

Share-based payments: benefits paid according to an agreement between the entity and the employee that entitles them to receive cash or other assets for amounts that are based on the price of shares or share options provided specified vesting conditions, if any, are met. This category is unlikely to be applicable to public sector not-for-profit entities.

Annualised employee equivalent (AEE) is required to be disclosed in addition to the headcount disclosure of executive officers.

AEE is defined and explained in FRD 21C in the financial statements. It is calculated by dividing the total number of days that an employee is engaged to work during the week by the total number of full-time working days per week.

Example 1

A part-time Employee A works 3 days per week.

- AEE = 3 days/5 days = 0.6

Example 2

A full-time Employee B works 5 full working days in a compressed week over 4 days under flexible working arrangements.

- AEE = 5 days/5 days = 1.00

If a person becomes an executive during the reporting period, no disclosure is required for remuneration paid to that person prior to their appointment as an executive.

If a person ceases to be an executive during the reporting period, the disclosure should only include their remuneration for the reporting period up until the end of their term of employment as an executive.

The disclosure of executive officer remuneration does not relate to any VPS 6 or 7 staff acting on a temporary basis in executive roles, while the substantive executive officer is on paid leave or secondment.

Where an executive officer from the same department backfills for another executive officer while on paid leave or secondment in that same department, then both executive officers are included in the disclosure. [FRD 15D]

For further disclosure guidance in relation to executive officers, please refer to FRD 21C.

Reconciliation with 'executive officer data' in the Report of Operations

Entities must also ensure that the total number of executives reported in the note to the financial statements corresponds with the total numbers of executive officers reported in the executive officer data disclosure in the report of operations (i.e. Table 2: Reconciliation of executive numbers on page 44 of the Model report of operations).

9.9 Related parties

The department is a wholly owned and controlled entity of the State of Victoria.

The following agencies have been consolidated into the Department's financial statements pursuant to the determination made by the Minister for Finance under section 53(1)(b) of the *Financial Management Act 1994* (FMA):

- Gene Sciences Victoria;
- The Office of the Commissioner of New Technology; and
- Innovation Victoria.

Related parties of the department, Gene Sciences Victoria, the Office of the Commissioner of New Technology and Innovation Victoria include:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over);
- all cabinet ministers and their close family members; and
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

All related party transactions have been entered into on an arm's length basis.

Significant transactions with government-related entities

The Department received funding from and made payments to the Consolidated Fund of \$85.5 million (2017: \$63.7 million) and \$26.6 million (2017: \$27.5 million) respectively.

[During the year, the Department had the following government-related entity transactions:

- the following information in sufficient detail to enable users' of the entity's financial statements to understand the effect of related party transaction on its financial statements:
 - the nature and amount of each individually significant transactions; and
 - for other transactions that are collectively, but not individually significant, a qualitative or quantitative indication of their extent.]

Key management personnel of the department includes the Portfolio Ministers, the Hon. John Bristol MP and the Hon. Laura Toddington MP, the Secretary, Jane Smith, and members of the Senior Executive Team, which includes:

- Head of the Strategic Policy Advice division, John Tails;
- Head of the Research and Development Biological Technologies division, Paul Germs;
- Head of the Information Technology and Telecommunication Services division, Gail Mods; and
- Chief Finance and Accounting Officer, Robert McIvor.

Key management personnel of the agencies consolidated pursuant to section 53(1)(b) of the FMA into the Department's financial statements include:

| Entity | Position title |
|--|-------------------------|
| Gene Sciences Victoria | Chief Executive Officer |
| Gene Sciences Victoria | Chief Financial Officer |
| Office of the Commissioner of New Technology | Commissioner and CEO |
| Innovation Victoria | Chairperson |
| Innovation Victoria | Governing board member |
| Innovation Victoria | Governing board member |
| Innovation Victoria | Chief Executive Officer |

9. OTHER DISCLOSURES

Remuneration of key management personnel

The compensation detailed below excludes the salaries and benefits the Portfolio Minister receives. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968* and is reported within the Department of Parliamentary Services' Financial Report.

(\$ thousand)

| Compensation of KMPs | Department of Technology | | Section 53 / Administrative Offices ^(c) | |
|---|--------------------------|--------------|--|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Short-term employee benefits ^(a) | 2 798 | 2 544 | 1 367 | 1 305 |
| Post-employment benefits | 500 | 432 | 326 | 112 |
| Other long-term benefits | 989 | 869 | 200 | 271 |
| Termination benefits | n.a | 72 | n.a | n.a |
| Share based payments | n.a | n.a | n.a | n.a |
| Total^(b) | 4 287 | 3 917 | 1 893 | 1 688 |

Notes:

(a) Total remuneration paid to KMPs employed as a contractor during the reporting period through an external service provider has been reported under short-term employee benefits.

(b) Note that KMPs are also reported in the disclosure of remuneration of executive officers (Note 9.8).

(c) This includes remuneration of KMPs for Gene Sciences Victoria, The Office of the Commissioner of New Technology and Innovation Victoria.

Transactions and balances with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public e.g. stamp duty and other government fees and charges. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the *Public Administration Act 2004* and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Purchasing Board requirements.

Outside of normal citizen type transactions with the Department of Technology, there were no related party transactions that involved key management personnel, their close family members and their personal business interests. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Outside of normal citizen type transactions, there were no related party transactions that involved key management personnel, their close family members and their personal business interests, for the following agencies consolidated into the Department's financial statements:

- Gene Sciences Victoria;
- The Office of the Commissioner of New Technology; and
- Innovation Victoria.

No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Example of specific disclosure note

During the year, a company of which the spouse of John Bristol MP, the Portfolio Minister for the Department of Technology is a senior partner, was awarded a contract under the selective tender process on terms and conditions equivalent for those that prevail in arm's length transactions under the State's procurement process. The transaction involved the provision of IT support services to support the migration of the department's general ledger to a new platform with a total value of \$100 million over five years.

All other transactions that have occurred with KMP and their related parties have not been considered material for disclosure. In this context, transactions are only disclosed when they are considered necessary to draw attention to the possibility that the Department's financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

Example of aggregated disclosure note

During the year, related parties of key management personnel were awarded contracts on terms and conditions equivalent for those that prevail in arm's length transactions under the State's procurement process. The transactions involved the provision of consultancy, legal, IT and general support services with an aggregated value of \$10 million.

All other transactions that have occurred with KMP and their related parties have not been considered material for disclosure. In this context, transactions are only disclosed when they are considered necessary to draw attention to the possibility that the Department's financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

Guidance – Related parties

AASB 124 *Related Party Disclosures* only require the disclosure of material related party transactions and outstanding balances. Materiality is subject to professional judgement and goes beyond the dollar value of the transaction or balance.

However, it is important to note all KMP need to declare all relevant related party transactions (refer to Appendix 9 for sample declaration checklist for executive KMPs). This provides the required evidence (subject to audit) that all relevant information has been made available for the assessment and also because a transaction that may appear immaterial on its own, may in combination with other like transactions have a material effect on the State's, department's or agency's financial statements and warrants disclosure (refer to Appendix 10 for sample entity management checklist to support management's assessment of the completeness of the related party disclosure in their annual financial report).

Importantly, items of a similar nature may be disclosed in aggregate except where separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the department or entity i.e. individual transactions that are unusual in nature or significantly material by amount.

The aggregated disclosures must include:

- the nature of the relationships;
- the nature of the services/balances concerned; and
- the total amounts/balances involved.

The individual disclosures are a matter of management and auditor judgement in the context of respective reporting entity financial reports, and the size and nature of the transaction involved. Such transactions will generally not be usual business and are large or significant in amount in relation to the entity's operations, and therefore not expected to be frequent.

AASB 124.19 requires related party disclosures to be made separately for each consolidated entity in the financial statements. This includes:

- the parent;
- subsidiaries;
- associates or joint ventures;
- agencies consolidated into the Department's financial statements pursuant to the determination made by the relevant Minister under section 53(1) of the *Financial Management Act 1994* (FMA); and
- administrative offices established pursuant to an Order under section 11 of the *Public Administration Act 2004* (PAA).

Remuneration of other personnel (contractors with significant management responsibilities)

Previously under FRD 21B, entities were required to separately disclose expenses paid or payable to other personnel during the reporting period. Other personnel were defined as personnel engaged by an entity as contractors and charged with significant management responsibilities. As these contractors are responsible for planning, directing or controlling, directly or indirectly, the Department's activities, they meet the definition of Key Management Personnel (KMP) under AASB 124. As a result, contractors with significant management responsibilities will be captured as part of the related parties disclosure.

KMP of section 53 entities

Pursuant to a determination made by the Minister for Finance under section 53(1) of the FMA, entities can be included or consolidated into a department's financial statements, in accordance with:

- section 53(1)(a) where the entity's financial statements are included as a separate attachment to the department's own financial reports; or
- section 53(1)(b) where the entity's financial statements are consolidated into the department's financial reports.

Where an entity is included with the department's financial report under section 53(1)(a) – regard should be given to identifying relevant executives who meet the definition of KMP for these entities, for inclusion in the respective entity's financial report (i.e. the section 53(1)(a) entity's financial report).

Where an entity is consolidated in the department's financial report under section 53(1)(b) – regard should be given to identifying relevant executives who meet the definition of KMP for these entities, to be included as part of the consolidated group/department's financial statements. KMPs of section 53(1)(b) will be disclosed in accordance with AASB 124.19, which requires related party information for each consolidated entity to be separately disclosed, **where relevant and material**, in the consolidated entity's related party transactions note.

KMP of Administrative Offices

Administrative offices are established and abolished through Orders under section 11 of the PAA. While these offices are established in relation to a department, they are considered to be departments in their own right for FMA purposes. Under section 45(4) of the FMA, the financial statements of Administrative Offices are required to be incorporated into, and consolidated with, the department's financial statements.

As Administrative Offices are considered to be departments in their own right under the FMA, regard should be given to identifying relevant executives who meet the definition of KMP for these entities.

9. OTHER DISCLOSURES

Guidance – Related parties (*continued*)

KMPs of Administrative Offices will be disclosed in accordance with AASB 124.19, which requires related party information for each consolidated entity to be separately disclosed, **where relevant and material**, in the consolidated entity's related party transactions note.

Statutory officers

Statutory officers (e.g. Governor in Council appointments) have authority under legislation to direct or control the activities of a specified division or function. Typically this division or function will be a cost centre that is part of the department.

While the statutory officer may meet the definition of a KMP for their specified division or function, regard should be given to assessing whether the statutory officer is considered a KMP of the department. This will be a matter of judgement.

Declaration certificates should be collected from all statutory officers for their related party transactions. Management will need to exercise their professional judgement to determine whether the statutory officer's division/function and relevant related party transactions are considered to be **material and significant to the department** for disclosure in the financial report.

In performing this assessment, departments should consider whether the statutory officer has the ability to direct activities of a division/function that significantly affects the department's outcomes as a whole i.e. the division/function is material and significant to the department's overall business and financial outcomes. Note that the statutory officer does not necessarily need to be able to strategically influence all decisions made at the overall department level, to qualify as a KMP of the department.

9.10 Remuneration of auditors

| | (\$ thousand) | |
|-------------------------|---|--------------|
| <i>Source reference</i> | 2018 | 2017 |
| AASB 1054.10 | Victorian Auditor-General's Office | |
| AASB 1054.10(a) | 1 014 | 1 177 |
| AASB 1054.10(b) | Other non-audit services^(a) | |
| | .. | .. |
| | Total remuneration of auditors | |
| | 1 014 | 1 177 |

Note:

(a) The Victorian Auditor-General's Office is prohibited from providing non-audit services.

Guidance – Remuneration of auditors

The amount paid or due and payable to the Auditor-General for auditing the financial statements of the Department pursuant to the *Audit Act 1994* must be disclosed and should be net of GST except where the GST included in fees is not recoverable from the tax authority. GST that is not recoverable should be included as part of the remuneration. [AASB Interpretation 1031.6,7]

An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:

- (a) the audit or review of the financial statements; and
- (b) all other services performed during the reporting period with a description of the nature of the services performed. [AASB 1054.10,11]

9.11 Subsequent events

The Department of Technology (the Department) intends to privatise its consulting division subsequent to the current reporting period. Given that the expertise of this division is highly regarded in the private sector, several expressions of interests have been received. Further announcements, including the financial effect on the operations of the Department, will be made once agreements are finalised.

The policy in connection with recognising subsequent events that are for events that occur between the end of the reporting period and the date when the financial statements are authorised for issue is as follows:

- adjustments are made to amounts recognised in the financial statements where those events provide information about conditions that existed at the reporting date; and/or
- disclosure is made where the events relate to conditions that arose after the end of the reporting period that are considered to be of material interest.

Guidance – Subsequent events

The financial statements should disclose for each material category of subsequent events (other than those events whose financial effects have already been brought to account) that occurred after the reporting period and before authorisation of the financial statements:

- (a) the nature of the event; and
- (b) an estimate of its financial effect, or a statement that such an estimate cannot be made. Statements should consider likely impacts. For example, following a major catastrophic event such as the February 2009 Victorian bushfires:
 - (i) impairment of assets damaged or destroyed;
 - (ii) increases in grants to assist citizens;
 - (iii) extra costs by State agencies managing emergencies; and
 - (iv) reduced income to the State due to a lower tax base or tax exemptions granted.

Examples of events occurring after the reporting period that do not provide evidence about conditions existing at the end of the reporting period include:

- (a) a major business combination after the end of the reporting period or disposing of a major subsidiary;
- (b) announcing a plan to discontinue an operation;
- (c) major purchases of assets, classifications of assets as held for sale, other disposals of assets, or expropriation of major assets by government;
- (d) destruction of a major production plant by a fire, more widespread destruction such as the February 2009 Victorian bushfires that might occur after the reporting period;
- (e) announcing, or commencing the implementation of, a major restructure;
- (f) abnormally large changes after the reporting period in asset prices or foreign exchange rates;
- (g) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and
- (h) commencing major litigation arising solely out of events that occurred after the reporting period.

9.12 Other accounting policies**Contributions by owners** [FRD 119A, AASB Interpretation 1038.7]

Consistent with the requirements of AASB 1004 *Contributions*, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of the Department.

Additions to net assets that have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to or distributions by owners have also been designated as contributions by owners.

Transfers of net assets arising from administrative restructurings are treated as distributions to or contributions by owners. Transfers of net liabilities arising from administrative restructurings are treated as distributions to owners.

Foreign currency balances/transactions [AASB 121.21 and 121.23]

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign monetary items existing at the end of the reporting period are translated at the closing rate at the date of the end of the reporting period. Non-monetary assets carried at fair value that are denominated in foreign currencies are translated to the functional currency at the rates prevailing at the date when the fair value was determined.

Foreign currency translation differences are recognised in other economic flows in the consolidated comprehensive operating statement and accumulated in a separate component of equity, in the period in which they arise.

Guidance – Foreign Currency Disclosures

The following disclosure may be appropriate for departments with foreign operations:

'The presentation currency of Department [insert entity name] is the Australian dollar. The functional currency of each subsidiary throughout the group is generally the local currency. For consolidation purposes, assets and liabilities of these subsidiaries are translated at the closing rate at the end of the reporting period. Income and expense items are translated at the average exchange rate for the period. The effects of translating the financial position and results of operations from local functional currencies are included in other comprehensive income.'

9. OTHER DISCLOSURES

9.13 Australian Accounting Standards issued that are not yet effective [\[AASB 108.30-31\]](#)

The following AASs become effective for reporting periods commencing after the operative dates stated:

Certain new Australian Accounting Standards (AAS) have been published which are not mandatory for the 30 June 2018 reporting period. DTF assesses the impact of all these new standards and advises the Department of their applicability and early adoption where applicable. Please refer to Appendix 12 for the detailed list of the AASs issued but are not yet effective for the 2017-18 reporting period.

[The latest listing on impacts of AASs that are issued but not yet effective will be issued as Appendix 2 of the upcoming FRD 120L [pending]. Entities are advised to refer to this appendix to assist them in disclosing the impacts of AASs issued not yet effective, as required by AASB 108].

[Entities will need to exercise judgement in deciding which issued but not yet effective standards may have material impacts on their entities and not just reallocate this section of the FRD into their annual reports.]

Guidance – New Accounting Standards and interpretations

AAS issued but not yet effective [\[AASB 108.30\]](#)

When an entity has not applied a new AAS that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new AAS will have on the entity's financial statements in the period of initial application.

In complying with the requirement above, an entity considers disclosing:

- (a) the title of the new AAS;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the standard is required;
- (d) the date at which it plans to apply the standard initially; and
- (e) either:
 - (i) a discussion of the impact that initial application of the standard is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

The disclosures as described above must be made even if the impact on the entity is not expected to be material. However, there is no need to mention an AAS if it is clearly not applicable to the entity. [\[AASB 108.31\]](#)

9.14 Glossary of technical terms

The following is a summary of the major technical terms used in this report.

Actuarial gains or losses on superannuation defined benefit plans are changes in the present value of the superannuation defined benefit liability resulting from:

- (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

Administered item generally refers to a department lacking the capacity to benefit from that item in the pursuit of the entity's objectives and to deny or regulate the access of others to that benefit.

Amortisation is the expense that results from the consumption, extraction or use over time of a non-produced physical or intangible asset. This expense is classified as an 'other economic flow'.

Associates are all entities over which an entity has significant influence but not control, generally accompanying a shareholding and voting rights of between 20 per cent and 50 per cent.

Biological assets may comprise commercial forests and also any living animal, plant or agricultural produce that is the harvested product of biological assets.

Borrowings refers to interest bearing liabilities mainly raised from public borrowings raised through the Treasury Corporation of Victoria, finance leases and other interest bearing arrangements. Borrowings also include non-interest bearing advances from government that are acquired for policy purposes.

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Comprehensive result is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners.

Controlled item generally refers to the capacity of a department to benefit from that item in the pursuit of the entity's objectives and to deny or regulate the access of others to that benefit.

Current grants are amounts payable or receivable for current purposes for which no economic benefits of equal value are receivable or payable in return.

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a 'transaction' and so reduces the 'net result from transaction'.

Effective interest method is the method used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

Ex gratia expenses mean the voluntary payment of money or other non-monetary benefit (e.g. a write-off) that is not made either to acquire goods, services or other benefits for the entity or to meet a legal liability, or to settle or resolve a possible legal liability or claim against the entity.

Financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability is any liability that is:

- (a) a contractual obligation:
 - to deliver cash or another financial asset to another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- (b) a contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial statements in the Model Report comprises:

- (a) a balance sheet as at the end of the period;
- (b) a comprehensive operating statement for the period;
- (c) a statement of changes in equity for the period;
- (d) a cash flow statement for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information;
- (f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 Presentation of Financial Statements; and
- (g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 41 of AASB 101.

9. OTHER DISCLOSURES

Grant expenses and other transfers are transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be operating or capital in nature.

While grants to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. For this reason, grants are referred to by the AASB as involuntary transfers and are termed non-reciprocal transfers. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes.

Grants can be paid as general purpose grants, which refer to grants that are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants, which are paid for a particular purpose and/or have conditions attached regarding their use.

General government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those that are mainly non-market in nature, those that are largely for collective consumption by the community and those that involve the transfer or redistribution of income. These services are financed mainly through taxes, or other compulsory levies and user charges.

Grants for on-passing are grants paid to one institutional sector (e.g. a State general government entity) to be passed on to another institutional sector (e.g. local government or a private non-profit institution).

Infrastructure systems provide essential services used in the delivery of final services or products. They are generally a complex interconnected network of individual assets and mainly include sewerage systems, water storage and supply systems, and public transport assets owned by the State.

Interest expense represents costs incurred in connection with borrowings. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings.

Interest income includes unwinding over time of discounts on financial assets and interest received on bank term deposits and other investments.

Investment properties are properties held to earn rentals or for capital appreciation or both. Investment properties exclude properties held to meet service delivery objectives of the State of Victoria.

Joint ventures are contractual arrangements between the Department and one or more other parties to undertake an economic activity that is subject to joint control and have rights to the net assets of the arrangement. Joint control only exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Leases are rights to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

Net acquisition of non-financial assets (from transactions) are purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write-offs, impairment write-downs and revaluations.

Net financial liabilities is calculated as liabilities less financial assets, other than equity in public non-financial corporations (PNFC) and public financial corporations (PFC). This measure is broader than net debt as it includes significant liabilities, other than borrowings (e.g. accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt as it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Net gain on equity investments in other sector entities [\[DTF only\]](#) measured at proportional share of the carrying amount of net assets/(liabilities) comprises the net gains relating to the equity held by the general government sector in other sector entities. It arises from a change in the carrying amount of net assets of the subsidiaries. The net gains are measured based on the proportional share of the subsidiary's carrying amount of net assets/(liabilities) before elimination of inter sector balances.

Net lending/borrowing is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.

Net operating balance or **net result from transactions** is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those classified as 'other non-owner movements in equity'.

Net worth is calculated as assets less liabilities, which is an economic measure of wealth.

Non-financial assets are all assets that are not financial assets. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, cultural and heritage assets, intangibles and biological assets such as commercial forests.

Non-financial public sector represents the consolidated transactions and assets and liabilities of the general government and PNFC sectors. In compiling statistics for the non-financial public sector, transactions and debtor/creditor relationships between sub-sectors are eliminated to avoid double counting.

Non-produced assets are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

Operating result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'. Refer also 'net result'.

Other economic flows included in net result are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

Other economic flows – other comprehensive income comprises items (including reclassification adjustments) that are not recognised in net result as required or permitted by other Australian Accounting Standards. They include changes in physical asset revaluation surplus; share of net movement in revaluation surplus of associates and joint ventures; and gains and losses on remeasuring available-for-sale financial assets.

Payables includes short and long-term trade debt and accounts payable, grants, taxes and interest payable.

Produced assets include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, motion picture films and research and development costs (which does not include the start-up costs associated with capital projects).

Public financial corporations (PFC) are bodies primarily engaged in the provision of financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (e.g. taking deposits, issuing securities or providing insurance services). Estimates are not published for the public financial corporation sector.

The **public non-financial corporation (PNFC)** sector comprises bodies mainly engaged in the production of goods and services (of a non-financial nature) for sale in the market place at prices that aim to recover most of the costs involved (e.g. water and port authorities). In general, PNFCs are legally distinguishable from the governments that own them.

Receivables include amounts owing from government through appropriation receivable, short and long-term trade credit and accounts receivable, accrued investment income, grants, taxes and interest receivable.

Sales of goods and services refers to income from the direct provision of goods and services and includes fees and charges for services rendered, sales of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land. User charges includes sale of goods and services income.

Supplies and services generally represent cost of goods sold and the day to day running costs, including maintenance costs, incurred in the normal operations of the Department.

Taxation income represents income received from the State's taxpayers and includes:

- payroll tax, land tax and duties levied principally on conveyances and land transfers;
- gambling taxes levied mainly on private lotteries, electronic gaming machines, casino operations and racing;
- insurance duty relating to compulsory third party, life and non-life policies;
- insurance company contributions to fire brigades;
- motor vehicle taxes, including registration fees and duty on registrations and transfers;
- levies (including the environmental levy) on statutory corporations in other sectors of government; and
- other taxes, including landfill levies, licence and concession fees.

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows into an entity such as depreciation, where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the Government.

9. OTHER DISCLOSURES

9.15 Style conventions

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

| | |
|---------|--------------------------|
| .. | zero, or rounded to zero |
| (xxx.x) | negative numbers |
| 200x | year period |
| 200x 0x | year period |

The financial statements and notes are presented based on the illustration for a government department in the 2017-18 *Model Report for Victorian Government Departments*. The presentation of other disclosures is generally consistent with the other disclosures made in earlier publications of the Department's annual reports.

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'How to' guide to streamline a set of financial statements

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GUIDANCE SECTION 1: 'HOW TO' GUIDE TO STREAMLINE A SET OF FINANCIAL STATEMENTS

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G1. Introduction

Consider the statement: 'Financial statements tell a story'.

How well does your financial report tell your story? This is the fundamental question that the process of streamlining financial statements is seeking to address.

The process primarily involves improving the messages contained within existing financial statements by presenting relevant information together, removing clutter, immaterial and duplicate disclosures and improving the readability of financial information by incorporating financial information into different sections and removing technical jargon to the extent possible.

In introducing the concept of 'streamlining', here are a few thoughts on the objectives of a streamlining project.

What streamlining should achieve:

- presenting information in a manner that is relevant to the users of the financial statements;
- removing disclosures that are immaterial in the context of the financial statements taken as a whole;
- moving away from a checklist approach to disclosures;
- communicating financial information to the reader of the financial statements in a manner that aligns with the objectives, service delivery, financial performance and financial position of the reporting entity; and
- enhancing the readability of financial report and making these more user-friendly.

What streamlining is not:

- a process of removing information that is required by the applicable regulatory frameworks governing financial reporting;
- a way of 'hiding' information that is relevant to users of financial statements;
- a complete change in existing reporting requirements; and
- creating a revised template disclosures to be applied on a 'one size fits all' basis.

Section G2 of this guide sets out the steps involved in the process. Throughout the process, the 'three Rs' are considered as follows:



Reorder accounting policies and detailed notes so they better reflect the key financial measures and focus on areas of most relevance.



Rewrite technical wording into plain English, while still fully complying with relevant accounting standards and regulatory requirements.



Remove immaterial or irrelevant financial statement disclosures that have built up over time.

Application

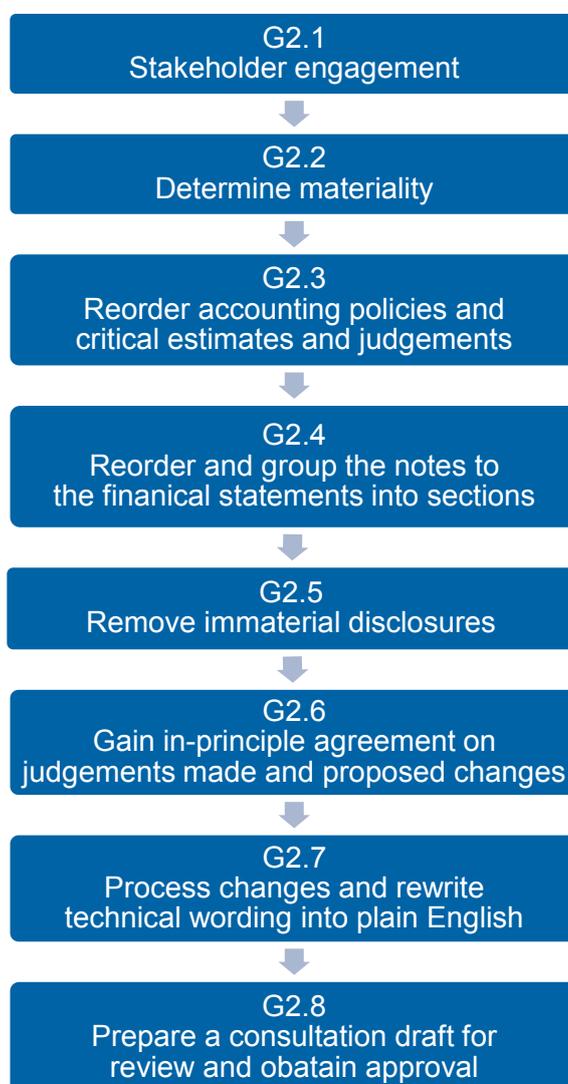
The principles of streamlining are universal and would apply to all agencies. However, public bodies will have more latitude in adopting unique note ordering and different note captions in comparison to departments, as the compliance with the requirements of the Model Report is mandatory for departments. For each of the steps set out in Section G2, noting in particular section G2.4 of this document, comments have been added for their application to departments.

G2. The process of streamlining

Streamlining financial statements is not a difficult process, however in order to achieve the benefits that streamlining can offer, a systematic approach should be undertaken.

While there is not a 'one size fits all' approach, the process outlined in this section has been used successfully within the public sector and is recommended for agencies when applying streamlining principles.

This 'How to' guide explains the following components in the process in more detail in the pages that follow:



G2.1 Stakeholder engagement

For the streamlining process to be successful, the reporting entity needs to ensure all key stakeholders:

- are aligned with the principles of streamlining;
- have provided input into the messaging to be included within the financial statements; and
- are supportive of the process and committed to the timelines.

An effective way of achieving this result is through stakeholder engagement sessions. These sessions should be attended by:

- executive management;
- those responsible for preparing financial statements and reporting more broadly;
- those responsible for engaging with internal and external stakeholders; and/or
- those charged with governance (e.g. audit committee members).

A typical agenda for these sessions would be framed around the following matters:

- the objectives and the results the entity is seeking to achieve;
- what streamlining is and the process involved to streamline financial statements;
- requesting information to understand the most important messages and the 'story' from other stakeholders' perspective; and
- obtaining feedback and stakeholder 'buy-in' of the process.

In preparation for these sessions, it is recommended that all available information is used to form an initial view to present to the stakeholders of how the financial report might be structured differently. This is a good tool to stimulate conversation among the stakeholders if they are not familiar with the process.

More than one stakeholder engagement session may be required and session's may need to be spread out depending on specific circumstances.

As you will see from the sections that follow, the stakeholder sessions are vitally important for identifying the information that feeds into the remaining steps in the process. Appropriate preparation and execution of this step in the process will be very beneficial in later stages of the project.

Application

Stakeholder consultation meetings are important for all agencies, but note that the structure of the financial report included in the Model financial statements are mandatory for departments. Public bodies can use the stakeholder meetings to test the application of the Model financial structure to their own circumstances and gather information to assist with the completion of the remainder of steps (for instance, matters that are qualitatively material).

G2.2 Determine materiality

The notes to the financial statements should include relevant and material information that are required to understand the financial position and performance of the agency.

As part of the streamlining process, the entity needs to determine what information should be included, what information should be reordered in a more logical sequence and what information can be removed from the financial report on the basis of materiality.

Information is considered material and relevant to the understanding of the financial statements if:

- the item is significant because of its size or dollar amount (quantitative factor);
- the item is significant because of its nature (qualitative factor);
- the entity's results cannot be understood without the specific disclosure (qualitative factor);
- it is critical for users to understand the changes in operations during the period or the financial position at a particular date (qualitative factor);
- there may be a reporting requirement associated with the item (i.e. it needs to be disclosed to comply with a reporting obligation, regardless of value); and/or
- it is required to meet the needs of a key stakeholder (stakeholder requirements).

Determining materiality is very judgemental in nature and should not be done in isolation to the rest of the financial report. To facilitate this process, it is recommended that:

- an appropriate benchmark (e.g. percentage of assets and revenue) is used to obtain a view of quantitatively material limits (the benchmark may differ from entity to entity and it is encouraged that the use of an appropriate benchmark be discussed with the external auditor at an early stage);
- information is obtained through the stakeholder engagement sessions as to what might be deemed 'material' from a qualitative perspective;
- knowledge of the business is used to identify additional matters that are qualitatively material; and
- all decisions, benchmarks, qualitative and quantitative information are documented for review and approval (including by auditors).

A suggested template for documenting materiality consideration is included in Section G4 of this guide.

Application

This step applies to all agencies and the suggested template in Section G4 of this guide can be used to document materiality considerations.

G2.3 Reorder accounting policies, critical estimates and judgements

Traditionally all the accounting policies notes, critical estimates and judgements are included in a single section at the start of the notes to the financial statement. One of the key elements to streamlining is separating these notes into their component parts and relocating each significant accounting policy and/or the corresponding critical estimate and judgement to be positioned with the relevant note.

For example, the revenue accounting policy and any critical estimates and judgements associated with revenue recognition would be located within the same note.

By having the accounting policy, critical estimate and judgement information, the account breakdown and any other relevant disclosures together, this means the reader of the accounts only has to look in one place to see all relevant information as to how the account or transactions have been accounted for together with the related disclosures.

This process will also help identify duplicate information. In the past it was not uncommon for information to be disclosed at the beginning of the document in the accounting policy note and then duplicated in the specific note. As part of the streamlining process, this duplicate information can now be removed.

Orphan accounting policies

During the process of relocating each accounting policy you may identify a number of policies with no clear logical place to be moved.

This could be for a number of reasons:

- The accounting policy may relate to an immaterial account balance or transaction which was removed as part of the process as described in section G2.5. In this case, the accounting policy is no longer considered 'significant' and can be removed from the financial statements.
- The accounting policy may relate to an accounting treatment common across a number of accounts. Accounting policies that often fall into this category include:
 - basis of consolidation; and
 - foreign currency translation.

In these circumstances, many organisations have opted to keep these accounting policies towards the front of the document in the basis of preparation section or to include them in a separate policy note under 'other'.

Application

This step applies to all agencies, noting the reordering flows from the structure discussed in Section G2.4, which has been illustrated in the Model financial statements.

G2.4 Reorder and group the notes to the financial statements into relevant sections

Traditionally the notes to the financial statements have followed the order of the primary statements. In a streamlined set of financial statements, the notes are reordered and grouped together into sections that better reflect the key financial measures of the entity and focus on the areas of most relevance.

When developing the grouping of notes (or the new structure of presenting notes), a systematic order should be taken. Examples of systematic ordering of grouping of notes provided by the Australian Accounting Standards Board (AASB) in the Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101, includes:

- (a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;
- (b) grouping together information about items measured similarly such as assets measured at fair value; or
- (c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position.

The Model financial statements for Victorian Government Departments have grouped the notes to the financial statements into nine sections. This is one example of how notes could be grouped together. While mandatory for departments, this is recommended for public bodies. Each entity should develop their own grouping and sections based on their material accounts and the nature of their operations.

The grouping of notes and sections adopted by the 2017-18 *Model Report for Victorian Government Departments* include:

4. **About this report** – The basis on which the financial statements have been prepared and compliance with reporting regulations
5. **Funding delivery of our services** – Revenue recognised in respect of appropriations and other income sources
6. **The cost of delivering services** – Operating expenses of the Department
7. **Disaggregated financial information by output** – Department outputs and Administered (non-controlled) items
8. **Key assets available to support output delivery** – Land, property, infrastructure, plant and equipment, biological assets, intangible assets, investments and other financial assets, interests in other entities
9. **Other assets and liabilities** – Working capital balances and other key assets and liabilities
10. **How we financed our operations** – Borrowings, cash flow information, leases, assets pledged as security
11. **Risks, contingencies and valuation judgements** – Financial risk management, contingent assets and liabilities as well as fair value determination
12. **Other disclosures** – Any other disclosures required to comply with accounting and disclosure requirements

An example of the structure of the notes, to be presented to stakeholders is included in section G5 of this guide. Section G5 also includes publicly available information from other entities with different note structures.

Developing section introductions

At the start of each new section of notes, an introduction should be included to enable the reader to better understand the entity's activities and what notes are included in the section. This provides the users with insights into the key activities of the agency, logical groupings and categories created to 'tell the story' of the agency.

The following is an extract of the introduction from the 'Funding delivery of our services' section of the Model financial statements for Victorian Government Departments (2017-18):

2. Funding delivery of our services

Introduction

The Department of Technology's (the Department) overall objective is to research, develop, promote and support the use of leading edge information, biological technology and telecommunications that bring improvements to the efficiency and effectiveness of government operation, and improvements to Victorians quality of life.

To enable the Department to fulfil its objective and provide outputs as described in Section 4, it receives income (predominantly accrual based parliamentary appropriations). The Department also receives market-based fees providing advice and other services in relation to information technology and telecommunications.

Structure

- 2.1 Summary of income that funds the delivery of our services
- 2.2 Appropriations
- 2.3 Summary of compliance with annual Parliamentary and special appropriations
- 2.4 Income from transactions
- 2.5 Annotated income agreements

It should be noted that the introduction section is also a useful tool to communicate information as to why the section was created and convey other messages, which may or may not have been conveyed through the financial statements. There is not a 'one size fit all' approach and some thought would need to be given to the effective and appropriate use of the introduction sections.

Application to departments

The Model financial statements incorporate the structure prescribed for government departments. If a department believes its circumstances are such that it needs to amend the structure of the Model financial statements (for whatever reason), then this deviation needs to be consulted with the Accounting Policy team of the Department of Treasury and Finance.

The 'Introduction' sections have already been set up in the Model financial statements. Departments should ensure the wording included within those sections are appropriate to their circumstances and tailored appropriately.

Public bodies will need to assess and determine if the proposed structure is appropriate for their specific circumstances.

G2.5 Remove immaterial disclosures

Using the prior year's final financial statements as a starting point, the agency needs to consider the materiality and relevance of each disclosure in light of the materiality decisions made in Section G2.2.

Any disclosure or additional information which is no longer considered material should be highlighted for removal.

The information proposed to be removed should be presented for approval (as outlined in Section G2.6) through a log of changes made.

Application

This step applies to all agencies.

G2.6 Gain in-principle agreement of judgements made and proposed changes

Once all structural decisions have been made and documented, including the information proposed to be removed from the financial statements, proposed relocation of significant accounting policies, critical estimates and judgements and the ordering and grouping of notes, it will be important to get in-principle agreement from key stakeholders.

Similar to G2.1, stakeholder engagement sessions will need to be held.

The purpose of these sessions is to:

- set the scene by presenting the thought process followed to arrive at the current structure;
- test the 'story' and the ordering of the notes to ensure it is conveying the appropriate message;
- gain agreement with the auditors on the proposed changes, especially judgements made around materiality and the removal of notes; and
- document discussions made and update the proposed structure as applicable.

Application

In principle, this step applies to all agencies, however departments would have fewer judgements to be made as the requirements included within the Model financial statements are mandatory for departments (unless they are not applicable).

G2.7 Process changes and rewrite technical wording into plain English

Once the structural changes have been agreed to, the changes can be processed into the electronic copy of the financial statements.

As the accounting policies have been relocated to the relevant notes, further duplication may be identified in the note, which can be removed. As part of this process, the wording and language of all accounting policies, critical estimates and judgements and other narrative disclosures can be simplified, and overly technical terminology can be replaced with plain English. The use of plain English can help improve the flow, understandability, and linkage of information throughout the report.

As the changes are being processed, each sections and their corresponding notes, should be considered to ensure that:

- section introductions have been included at the start of each section of notes;
- all relevant information in connection with a particular account balance or transaction are included in a single location, such as:
 - accounting policies;
 - critical estimate and judgement;
 - fair value or carrying amounts disclosures; and
 - [other].
- table layouts are designed to communicate the required information in the most efficient way (i.e. redesign tables where necessary and consolidate or merge relevant data); and
- the structure and reordering of notes convey the messages identified and agreed to earlier in the process.

As the changes are being processed into the electronic document, they should also be tracked through the use of a mapping document. At the end of the process, this document will act as a bridging schedule between the prior year's signed financial statements and the new streamlined financial statements, which will assist the agency with stakeholder communications and in gaining ultimate approval of the streamlined financial statements by the key stakeholders.

For each primary statement and note to the financial statements, the following information should be captured:

- a description of the key changes;
- the new location where the information is now positioned; and
- a summary of key information removed based on materiality.

In order to assist users to document the processed changes, a mapping document template has been developed and included in Section G6.

Application

This step applies to all agencies.

G2.8 Prepare a consultation draft for review and obtain approval

Once all changes have been processed into the electronic version of the document, this version can become the consultation draft for socialisation and detailed review by key stakeholders.

The consultation draft should be accompanied by all necessary information and documents supporting the streamlining decisions, including:

- the materiality assessment (refer G2.2);
- grouping and ordering of notes (refer G2.4); and
- a mapping document summarising key changes and the new location of information (refer G2.7).

The consultation draft accompanied with the above information will need to be circulated to key stakeholders for final approval, including:

- CFO;
- audit and risk committee;
- auditors;
- relevant ministers (where appropriate); and
- any other key stakeholders.

Application

This step applies to all agencies.

G3. Further information

This 'How to' guide provides basic guidance on the steps and processes to be followed when streamlining a set of financial statements.

While the process is the same for all agencies, each set of streamlined financial statements will look and feel slightly different as agencies determine the best way to tell their own 'story'.

Ideas of innovative ways to present information can be gained from looking at the financial statements of other government agencies or listed Australian Securities Exchange (ASX) organisations that have also gone through the streamlining process.

A number of examples have been provided in this document in Section G5.

G4. Example materiality documentation template

[Name of agency]

Streamlining project

Materiality Considerations

1. Objective of this paper

The objective of this paper is to provide a framework for evaluating whether removal of disclosures in the [agency] financial reports are material.

This paper records the decisions made by management in ensuring that no disclosures are omitted that could influence economic decision making of users or impact the discharge of responsibility by management or a governing body.

2. Defining materiality

Omission of disclosures are material if they could, individually or collectively, influence the economic decisions of users or affect the discharge of accountability by management or governing body of the reporting entity.

Materiality in the context of this project is considered under the categories below to provide a framework for evaluating whether a disclosure is 'material' and therefore should not be removed. These are:

- quantitative indicators of materiality (refer to 3 below);
- qualitative factors impacting materiality (refer to 4 below); and
- stakeholder requirements that impact the disclosure of information and therefore impacts materiality (refer section 5 below).

3. Quantitative materiality indicators

[agency] applies generally accepted quantitative materiality indicators. The quantitative benchmarks applied are:

- Below [5 per cent] of the applicable benchmark number (refer below) is assumed to be immaterial, unless a disclosure is required by legislation, regulation or specific stakeholder recommendation.
- Between [5 per cent] and [10 per cent] of the applicable benchmark number needs to be considered in the context of qualitative materiality factors (refer to 4 below) and consideration of stakeholder requirements (refer to 5 below).
- Over 10 per cent of the applicable benchmark number is deemed material.

Two separate quantitative materiality figures are calculated: one for the [Comprehensive operating statement] based on 'Net Result' and the other for the [Balance sheet] based on 'Net Assets':

| | <i>Comprehensive operating statement</i> | <i>Balance sheet</i> |
|-------------------|--|--------------------------|
| [Entity] | | |
| Lower limit [5]% | \$ xx m | \$ xx m |
| Upper limit [10]% | \$ xx m | \$ xx m |

4. Qualitative factors impacting materiality

Qualitative factors need to be evaluated on a case by case basis, however, the following are recorded as key qualitative factors:

- Application of Australian Accounting Standards (including references to materiality in the Framework for the Preparation and Presentation of Financial Statements: AASB 101);
- The impact on key financial measures as follows:
 - [...]
 - [...]
 - [...]
 - [...].

5. Stakeholder requirements that impact the disclosure of information in the financial report

Whether the removal of a disclosure is material or not will also be judged in the context of other stakeholder requirements. These include:

- Specific requirements from the Victoria Auditor General's Office;
- PAEC recommendations;
- [...]
- [...].

6. Conclusion

[agency] will apply materiality as follows:

- a. Any disclosures in relation to amounts lower than the lower limit is removed, unless a specific qualitative consideration applies (negative test).

Any disclosures in relation to amounts between the lower and upper limits are first evaluated against the qualitative factors and stakeholder requirements, and removed if deemed 'immaterial' following that evaluation.

G5. Example of revised note structure for departments

1. About this report

- Basis of preparation
- Compliance information

2. Funding delivery of our services

- Summary of income that funds the delivery of our services
- Appropriations
- Summary of compliance with annual Parliamentary and special appropriations
- Income from transactions
- Annotated income agreements

3. The cost of delivering services

- Expenses incurred in delivery of services
- Employee benefits
- Grant expenses
- Capital asset charge
- Other operating expenses

4. Disaggregated financial information by output

- Departmental outputs:
 - Description and objectives
 - Controlled income and expenses
 - Controlled assets and liabilities
- Administered (non-controlled) items
- Restructuring of administrative arrangements

5. Key assets available to support output delivery

- Total property, plant and equipment
- Investment properties
- Biological assets
- Intangible assets
- Investments accounted for using the equity method
- Investments and other financial assets
- Acquisition and disposal of entities

6. Other assets and liabilities

- Receivables
- Payables
- Inventories
- Other non-financial assets
- Other provisions

7. How we financed our operations

- Borrowings
- Leases
- Cash flow information and balances
- Trust account balances
- Commitments for expenditure
- Assets pledged as security

8. Risks, contingencies and valuation judgements

- Financial instruments specific disclosures
- Contingent assets and contingent liabilities
- Fair value determination

9. Other disclosures

- Ex gratia expenses
- Other economic flows included in net result
- Discontinued operations and non-current assets held for sale
- Reserves
- Entities consolidated pursuant to section 53(1)(b) of the FMA
- Correction of a prior period error (including guidance on changes in accounting policy and accounting estimates)
- Responsible persons
- Remuneration of executives
- Related parties
- Remuneration of auditors
- Subsequent events
- Other accounting policies
- Australian Accounting Standards issued that are not yet effective
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- Style conventions

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Source: auspost.com.au/annualreport2016/resources/docs/auspost_financial_report.pdf

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial report: introduction and contents

As at 30 June 2016

About this report

This is the financial report for Telstra Corporation Limited and its controlled entities (together referred to as we, us, our, Telstra, the Telstra Group or the Group) for the year ended 30 June 2016.

Telstra Corporation Limited (referred to as the Company or Telstra Entity) is a 'for profit' company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

Over the past year we have reviewed the content and structure of our financial report in order to make it less complex and more relevant to users. This included:

- a review of content to eliminate immaterial disclosures that may undermine the usefulness of the financial report by obscuring important information
- reorganisation of the notes to the financial statements into separate sections to help users understand our financial performance
- moving our accounting policies and key estimates and judgements used in preparation of the financial statements to the relevant notes in order to provide the appropriate context.

The purpose of these changes is to provide users with financial information that is more understandable and better structured to explain our financial performance and financial position.

This financial report was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 11 August 2016. The Directors have the power to amend and reissue the financial report.

Reading the financials

Section introduction

Introduction at the start of each section outlines the focus of the section and explains the purpose and content of that section.

Note and topic summary

A summary at the start of certain notes explains the objectives and content of that note, or at the start of certain specific topics clarifies complex concepts, with which users may not be familiar.

Narrative table

Some narrative disclosures are presented in a tabular format to provide readers with a clearer understanding of the information being presented.

Information panel

The information panel describes our key accounting estimates and judgements applied in the preparation of the financial report which are relevant to that section or note.

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Source: www.telstra.com.au/content/dam/tcom/about-us/investors/pdf-e/FY16-Annual-Report.pdf.

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|---|--|--|--|---|--|---|
| | | | | | | |
| | B1 Segment information | C1 Reconciliation of cash flow from operating activities | D1 Employee benefits | E1 Borrowings | F1 Joint arrangements and associate entities | G1 New accounting standards |
| | B2 Profit from ordinary activities | C2 Trade and other receivables | D2 Key management personnel compensation | E2 Financing facilities | F2 Acquisition of businesses | G2 Capital and financial risk management |
| | B3 Earnings per share | C3 Rendering of services and construction contracts | D3 Employee discount share plan | E3 Commitments | F3 Disposal of subsidiary | G3 Other financial assets and liabilities |
| | B4 Taxation | C4 Inventories | | E4 Issued capital | F4 Controlled entities | |
| | B5 Remuneration of auditors | C5 Trade and other payables | | E5 Dividends | F5 Related party information | |
| | B6 Subsequent events | C6 Property, plant and equipment | | | F6 Parent entity disclosures | |
| | | C7 Intangible assets | | | | |
| | | C8 Provisions | | | | |
| | | C9 Contingent liabilities | | | | |

Page 97 Directors' Declaration

Source: www.downergroup.com/Content/cms/Documents/_2015-16_Full_Year_Results3_-DOW0030-Annual-Report-2016.pdf

GUIDANCE SECTION 2: GENERAL AND SPECIFIC DISCLOSURE REQUIREMENTS, INCLUDING PRESENTATION REQUIREMENTS

Requirements that apply to all aspects of the preparation of financial statements

This guidance section highlights those requirements that all agencies need to adhere to in preparing financial statements.

Consistency: The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in AASB 108; or
- (b) an AAS requires a change in presentation. [\[AASB 101.45\]](#)

Materiality and aggregation: Each material class of similar items shall be presented separately in the financial statements. Items of a similar nature or function shall be presented separately unless they are immaterial. [\[AASB 101.29\]](#)

An agency must assess and make judgements to determine if an item is material. As a general guide, financial information will be considered material if their omission, mis-statement or non-disclosure has the potential, individually or collectively, to:

- (a) influence the economic decisions that users make on the basis of the financial statements; and
- (b) affect the discharge of accountability by management or governing body of the entity.

Items that are immaterial both individually and in aggregate may be combined and presented as a single line item. However, the value of such line item is unlikely to exceed 10 per cent of the total value of the financial statement component that it forms part of.

Offsetting: Income, expenses, assets and liabilities shall not be offset unless required by an AAS or permitted by an FRD. [\[AASB 101.32\]](#)

For financial instruments, a financial asset and a financial liability shall be offset and the net amount presented in the balance sheet only when an entity:

- (a) currently has a legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability. [\[AASB 132.42\]](#)

Comparative information shall be disclosed in respect of the previous period for all amounts reported in the complete set of financial statements unless an AAS permits otherwise. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's complete set of financial statements. [\[AASB 101.38\]](#)

Reclassification of financial information: When the presentation or classification of items in the complete set of financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:

- (a) the nature of the reclassification;
- (b) the amount of each item or class of items that is reclassified; and
- (c) the reason for the reclassification. [\[AASB 101.41\]](#)

When it is impracticable to reclassify comparative amounts, an entity shall disclose:

- (a) the reason for not reclassifying the amounts; and
- (b) the nature of the adjustments that would have been made if the amounts had been reclassified. [\[AASB 101.42\]](#)

Goods and Services Tax (GST): AASB Interpretation 1031 provides that revenue, expenses and assets must be recognised, net of the amount of GST, except where GST relating to the expenditure items is not recoverable from the taxation authority, in which case the item is recognised GST inclusive.

Agencies that are not able to recover GST relating to particular expenditure items should include a disclosure note indicating which items are inclusive of non-recoverable GST and amend the wording of specific disclosures to make it clear that the amounts disclosed are inclusive of non-recoverable GST. [AASB Interpretation 1031.6 and 1031.7]

Receivables and payables shall be stated with the amount of GST included. [AASB Interpretation 1031.8]

The gross amount of GST recoverable from, or payable to, the taxation authority shall be included as part of either receivables or other liabilities in the balance sheet. [AASB Interpretation 1031.9]

The GST component of cash flows arising from investing and financing activities that is recoverable from, or payable to, the taxation authority shall be classified as operating cash flows and will be included in receipts from customers or payments to suppliers, as appropriate. [AASB Interpretation 1031.10, 1031.11]

True and fair override: A complete set of financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the AASB's conceptual framework (the framework). The application of AASs, with additional disclosure when necessary, is presumed to result in a complete set of financial statements that achieves a fair presentation. [AASB 101.15]

In the extremely rare circumstance when management concludes that compliance with a requirement in an AAS would be so misleading that it would conflict with the objective of financial statements set out in the framework, the agency shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

- (a) the title of the AAS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the framework [AASB 101.23(a)]; and
- (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation. [AASB 101.23(b)]

Going concern basis [AASB 101.25]

When preparing financial statements, management shall make an assessment of the agency's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the agency or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the agency's ability to continue as a going concern, those uncertainties shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason the entity is not regarded as a going concern.

GUIDANCE SECTION 3: WHAT IS NOT DISCLOSED IN THE MODEL FINANCIAL STATEMENTS

The Model financial statements do not and cannot be expected to cover all situations that may be encountered in practice.

Specifically, this Model does not provide illustration guidance on the disclosure requirements of the following effective AASs that have been issued by the AASB up to and including 1 March 2018.

| Reference | Title |
|------------------|--|
| AASB 1 | First-time Adoption of Australian Accounting Standards |
| AASB 2 | Share-based Payment |
| AASB 4 | Insurance Contracts |
| AASB 6 | Exploration for and Evaluation of Mineral Resources |
| AASB 8 | Operating Segments |
| AASB 111 | Construction contracts |
| AASB 14 | Regulatory Deferral Accounts |
| AASB 112 | Income Taxes |
| AASB 120 | Accounting for Government Grants and Disclosure of Government Assistance |
| AASB 127 | Separate Financial Statements |
| AASB 129 | Financial Reporting in Hyperinflationary Economics |
| AASB 133 | Earnings per Share |
| AASB 134 | Interim Financial Reporting |
| AASB 1023 | General Insurance Contracts |
| AASB 1038 | Life Insurance Contracts |
| AASB 1039 | Concise Financial Reports |
| AASB 1048 | Interpretation of Standards |
| AASB 1053 | Application of Tiers of Australian Accounting Standards |
| AASB 1055 | Budgetary Reporting |
| AASB 1056 | Superannuation Entities |

APPENDICES

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APPENDIX 1: EXTRACTS OF WHOLE OF GOVERNMENT FINANCIAL STATEMENTS AND ANALYSIS OF DISCLOSURES

[The following extracts are supplementary information for the introduction to the Model report and therefore not part of disclosure requirements. These extracts have been included to highlight the different presentation formats in whole of government publications for the estimates and actuals.]

Appendix 1(a) – Extract of estimated financial statements from the 2017-18 Statement of Finances: Budget Paper No. 5

Estimated financial statements

Table 1.1: Estimated general government sector comprehensive operating statement for the financial year ending 30 June

(\$ million)

| | Notes | 2017-18 budget | 2018-19 estimate | 2019-20 estimate | 2020-21 estimate |
|---|-------|-------------------|---------------------|---------------------|---------------------|
| Revenue from transactions | | | | | |
| Taxation revenue | 1.2.1 | 21 827 | 23 163 | 24 475 | 25 629 |
| Interest revenue | | 899 | 869 | 858 | 826 |
| Dividends and income tax equivalent and rate equivalent revenue | 1.2.2 | 1 171 | 586 | 645 | 776 |
| Sales of goods and services | 1.2.3 | 7 187 | 7 465 | 7 807 | 8 097 |
| Grant revenue | 1.2.4 | 29 818 | 31 915 | 31 619 | 32 280 |
| Other revenue | 1.2.5 | 2 502 | 2 525 | 2 544 | 2 560 |
| Total revenue from transactions | | 63 405 | 66 524 | 67 947 | 70 169 |
| Expenses from transactions | | | | | |
| Employee expenses | | 23 011 | 24 039 | 24 722 | 25 346 |
| Net superannuation interest expense | 1.3.2 | 761 | 734 | 704 | 674 |
| Other superannuation | 1.3.2 | 2 347 | 2 379 | 2 433 | 2 466 |
| Depreciation | 1.4.2 | 2 788 | 3 033 | 3 193 | 3 394 |
| Interest expense | 1.5.3 | 2 181 | 2 197 | 2 201 | 2 258 |
| Grant expense | 1.3.3 | 11 333 | 12 876 | 13 308 | 13 267 |
| Other operating expenses | 1.3.4 | 19 830 | 19 291 | 18 981 | 20 036 |
| Total expenses from transactions | 1.3.5 | 62 252 | 64 549 | 65 542 | 67 441 |
| Net result from transactions – net operating balance | | 1 153 | 1 975 | 2 405 | 2 727 |
| Other economic flows included in net result | | | | | |
| Net gain/(loss) on disposal of non-financial assets | | 73 | 337 | 77 | 67 |
| Net gain/(loss) on financial assets or liabilities at fair value | | 11 | 16 | 17 | 17 |
| Other gains/(losses) from other economic flows | 1.7.1 | (318) | (328) | (335) | (349) |
| Total other economic flows included in net result | | (234) | 26 | (241) | (265) |
| Net result | | 2 635 | 1 823 | 1 841 | 2 206 |
| Other economic flows – other comprehensive income | | | | | |
| Items that will not be reclassified to net result | | | | | |
| Changes in non-financial assets revaluation surplus | | 3 660 | 641 | 7 844 | 1 507 |
| Remeasurement of superannuation defined benefit plans | 1.3.2 | 915 | 931 | 946 | 960 |
| Other movements in equity | | 7 | 21 | (14) | 8 |
| Items that may be reclassified subsequently to net result | | | | | |
| Net gain/(loss) on financial assets at fair value | | 1 | 2 | 3 | 2 |
| Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets | 1.6.1 | (966) | 609 | (254) | 909 |
| Total other economic flows – other comprehensive income | | 3 617 | 2 203 | 8 525 | 3 386 |
| Comprehensive result – total change in net worth | | 4 504 | 4 036 | 10 636 | 5 810 |
| KEY FISCAL AGGREGATES | | | | | |
| Net operating balance | | 1 153 | 1 975 | 2 405 | 2 727 |
| Less: Net acquisition of non-financial assets from transactions | 1.3.7 | 1 813 | 313 | 350 | 65 |
| Net lending/(borrowing) | | (660) | 1 662 | 2 055 | 2 663 |

The accompanying notes form part of these estimated financial statements.

APPENDIX 1

Table 1.2: Estimated general government sector balance sheet as at 30 June (\$ million)

| | Notes | 2017 revised | 2018 budget | 2019 estimate | 2020 estimate | 2021 estimate |
|--|-------|-----------------|----------------|------------------|------------------|------------------|
| Assets | | | | | | |
| Financial assets | | | | | | |
| Cash and deposits | | 4 885 | 5 293 | 5 772 | 6 340 | 6 673 |
| Advances paid | 1.5.2 | 12 392 | 9 683 | 7 898 | 6 384 | 4 882 |
| Receivables | | 5 606 | 5 701 | 5 978 | 6 173 | 6 551 |
| Investments, loans and placements | 1.5.2 | 3 597 | 2 813 | 2 756 | 2 772 | 2 837 |
| Investments accounted for using equity method | | 46 | 46 | 46 | 46 | 46 |
| Investments in other sector entities | 1.6.1 | 90 708 | 94 402 | 98 798 | 101 360 | 105 128 |
| Total financial assets | | 117 235 | 117 939 | 121 247 | 123 076 | 126 118 |
| Non-financial assets | | | | | | |
| Inventories | | 191 | 192 | 196 | 201 | 205 |
| Non-financial assets held for sale | | 179 | 175 | 177 | 178 | 179 |
| Land, buildings, infrastructure, plant and equipment | 1.4.1 | 118 593 | 124 266 | 125 703 | 134 072 | 135 792 |
| Other non-financial assets | 1.4.4 | 1 275 | 1 276 | 1 477 | 2 113 | 2 555 |
| Total non-financial assets | | 120 237 | 125 909 | 127 554 | 136 564 | 138 731 |
| Total assets | 1.4.5 | 237 472 | 243 848 | 248 801 | 259 640 | 264 849 |
| Liabilities | | | | | | |
| Deposits held and advances received | | 8 528 | 5 879 | 4 163 | 2 724 | 1 282 |
| Payables | 1.6.2 | 5 426 | 5 452 | 7 093 | 6 824 | 6 572 |
| Borrowings | 1.5.1 | 30 471 | 35 707 | 37 406 | 40 125 | 42 027 |
| Employee benefits | 1.3.1 | 6 548 | 6 789 | 7 062 | 7 277 | 7 547 |
| Superannuation | 1.6.3 | 25 424 | 24 511 | 23 506 | 22 452 | 21 358 |
| Other provisions | | 845 | 776 | 803 | 832 | 849 |
| Total liabilities | | 77 243 | 79 114 | 80 032 | 80 235 | 79 634 |
| Net assets | | 160 229 | 164 734 | 168 769 | 179 405 | 185 215 |
| Accumulated surplus/(deficit) | | 49 597 | 51 407 | 54 192 | 57 235 | 60 627 |
| Reserves | | 110 633 | 113 327 | 114 578 | 122 170 | 124 588 |
| Net worth | | 160 229 | 164 734 | 168 769 | 179 405 | 185 215 |
| FISCAL AGGREGATES | | | | | | |
| Net financial worth | | 39 993 | 38 825 | 41 216 | 42 841 | 46 484 |
| Net financial liabilities | | 50 716 | 55 577 | 57 582 | 58 519 | 58 645 |
| Net debt | | 18 124 | 23 797 | 25 143 | 27 354 | 28 917 |

The accompanying notes form part of these estimated financial statements.

Table 1.3: Estimated general government sector cash flow statement for the financial year ending 30 June

(\$ million)

| | Notes | 2017-18 budget | 2018-19 estimate | 2019-20 estimate | 2020-21 estimate |
|---|-------|-------------------|---------------------|---------------------|---------------------|
| Cash flows from operating activities | | | | | |
| Receipts | | | | | |
| Taxes received | | 21 688 | 22 986 | 24 307 | 25 280 |
| Grants | | 29 817 | 31 915 | 31 619 | 32 280 |
| Sales of goods and services ^(a) | | 8 076 | 9 766 | 8 441 | 8 767 |
| Interest received | | 898 | 869 | 857 | 826 |
| Dividends and income tax equivalent and rate equivalent receipts | | 1 174 | 525 | 639 | 770 |
| Other receipts | | 2 001 | 1 948 | 1 975 | 2 002 |
| Total receipts | | 63 655 | 68 009 | 67 838 | 69 925 |
| Payments | | | | | |
| Payments for employees | | (22 773) | (23 769) | (24 509) | (25 079) |
| Superannuation | | (3 107) | (3 187) | (3 246) | (3 274) |
| Interest paid | | (2 144) | (2 160) | (2 164) | (2 221) |
| Grants and subsidies | | (11 294) | (12 874) | (13 263) | (13 265) |
| Goods and services ^(a) | | (20 005) | (19 523) | (19 713) | (20 537) |
| Other payments | | (732) | (754) | (784) | (823) |
| Total payments | | (60 054) | (62 266) | (63 679) | (65 200) |
| Net cash flows from operating activities | | 3 601 | 5 743 | 4 159 | 4 725 |
| Cash flows from investing activities | | | | | |
| Purchases of non-financial assets | 1.3.6 | (8 780) | (7 882) | (6 929) | (6 913) |
| Sales of non-financial assets | | 503 | 789 | 463 | 494 |
| Net cash flows from investments in non-financial assets | | (8 277) | (7 093) | (6 466) | (6 419) |
| Net cash flows from investments in financial assets for policy purposes | | 2 348 | 2 191 | 1 883 | 2 576 |
| Subtotal | | (5 930) | (4 902) | (4 583) | (3 843) |
| Net cash flows from investments in financial assets for liquidity management purposes | | 801 | 76 | 29 | (38) |
| Net cash flows from investing activities | | (5 129) | (4 825) | (4 554) | (3 881) |
| Cash flows from financing activities | | | | | |
| Advances received (net) | | (2 649) | (1 716) | (1 438) | (1 442) |
| Net borrowings | | 4 584 | 1 271 | 2 400 | 932 |
| Net cash flows from financing activities | | 1 935 | (445) | 962 | (511) |
| Net increase/(decrease) in cash and cash equivalents | | 408 | 472 | 567 | 333 |
| Cash and cash equivalents at beginning of reporting period | | 4 885 | 5 293 | 5 765 | 6 332 |
| Cash and cash equivalents at end of reporting period^(b) | | 5 293 | 5 765 | 6 332 | 6 665 |
| FISCAL AGGREGATES | | | | | |
| Net cash flows from operating activities | | 3 601 | 5 743 | 4 159 | 4 725 |
| Net cash flows from investments in non-financial assets | | (8 277) | (7 093) | (6 466) | (6 419) |
| Cash surplus/(deficit) | | (4 676) | (1 350) | (2 307) | (1 695) |

The accompanying notes form part of these estimated financial statements.

Notes:

(a) Inclusive of goods and services tax.

(b) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

APPENDIX 1

Table 1.4: Estimated general government sector statement of changes in equity for the financial year ending 30 June (\$ million)

| | <i>Accumulated surplus/ (deficit)</i> | <i>Non-financial assets revaluation surplus</i> | <i>Investment in other sector entities revaluation surplus</i> | <i>Other reserves</i> | <i>Total</i> |
|--|---------------------------------------|---|--|-----------------------|----------------|
| 2017-18 budget | | | | | |
| Balance at 1 July 2017 | 49 597 | 52 765 | 57 332 | 536 | 160 229 |
| Net result for the year | 887 | .. | .. | .. | 887 |
| Other comprehensive income for the year | 923 | 3 660 | (966) | 1 | 3 617 |
| Transfer to/(from) accumulated surplus | .. | .. | .. | .. | .. |
| Transactions with owners in their capacity as owners | .. | .. | .. | .. | .. |
| Total equity as at 30 June 2018 | 51 407 | 56 424 | 56 366 | 537 | 164 734 |
| 2018-19 estimate | | | | | |
| Balance at 1 July 2018 | 51 407 | 56 424 | 56 366 | 537 | 164 734 |
| Net result for the year | 1 832 | .. | .. | .. | 1 832 |
| Other comprehensive income for the year | 952 | 641 | 609 | 1 | 2 203 |
| Transfer to/(from) accumulated surplus | .. | .. | .. | .. | .. |
| Transactions with owners in their capacity as owners | .. | .. | .. | .. | .. |
| Total equity as at 30 June 2019 | 54 192 | 57 065 | 56 975 | 538 | 168 769 |
| 2019-20 estimate | | | | | |
| Balance at 1 July 2019 | 54 192 | 57 065 | 56 975 | 538 | 168 769 |
| Net result for the year | 2 111 | .. | .. | .. | 2 111 |
| Other comprehensive income for the year | 933 | 7 844 | (254) | 3 | 8 525 |
| Transfer to/(from) accumulated surplus | .. | .. | .. | .. | .. |
| Transactions with owners in their capacity as owners | .. | .. | .. | .. | .. |
| Total equity as at 30 June 2020 | 57 235 | 64 908 | 56 721 | 541 | 179 405 |
| 2020-21 estimate | | | | | |
| Balance at 1 July 2020 | 57 235 | 64 908 | 56 721 | 541 | 179 405 |
| Net result for the year | 2 424 | .. | .. | .. | 2 424 |
| Other comprehensive income for the year | 968 | 1 507 | 909 | 2 | 3 386 |
| Transfer to/(from) accumulated surplus | .. | .. | .. | .. | .. |
| Transactions with owners in their capacity as owners | .. | .. | .. | .. | .. |
| Total equity as at 30 June 2021 | 60 627 | 66 416 | 57 630 | 543 | 185 215 |

The accompanying notes form part of these estimated financial statements

Appendix 1(b) – Extract of financial statements from the 2017-18 Quarterly Financial Report No. 1

Financial statements for the general government sector

Table 1.5: Comprehensive operating statement for the period ending 30 September (\$ million)

| 2016-17 Actual 30 Sep | | Notes | 2017-18 Actual 30 Sep | Annual budget |
|--|---|-------|-----------------------------|------------------|
| Revenue from transactions | | | | |
| 5 265 | Taxation revenue | 2.1 | 5 722 | 21 827 |
| 168 | Interest revenue | | 210 | 899 |
| 78 | Dividends and income tax equivalent and rate equivalent revenue | 2.2 | 57 | 1 171 |
| 1 672 | Sales of goods and services | 2.3 | 1 766 | 7 187 |
| 6 699 | Grant revenue | 2.4 | 6 899 | 29 818 |
| 510 | Other revenue | 2.5 | 544 | 2 502 |
| 14 391 | Total revenue from transactions | | 15 198 | 63 405 |
| Expenses from transactions | | | | |
| 5 179 | Employee expenses | | 5 581 | 23 011 |
| 199 | Net superannuation interest expense | 3.3 | 192 | 761 |
| 552 | Other superannuation | 3.3 | 598 | 2 347 |
| 627 | Depreciation | 4.2 | 655 | 2 788 |
| 472 | Interest expense | | 454 | 2 181 |
| 2 587 | Grant expense | | 2 559 | 11 333 |
| 4 295 | Other operating expenses | | 4 604 | 19 830 |
| 13 911 | Total expenses from transactions | 3.4 | 14 643 | 62 252 |
| 480 | Net result from transactions – net operating balance | | 555 | 1 153 |
| Other economic flows included in net result | | | | |
| (2) | Net gain/(loss) on disposal of non-financial assets | | (1) | 82 |
| 16 | Net gain/(loss) on financial assets or liabilities at fair value | | (2) | 22 |
| (124) | Other gains/(losses) from other economic flows | 7.1 | (56) | (370) |
| (110) | Total other economic flows included in net result | | (58) | (266) |
| 370 | Net result | | 497 | 887 |
| Other economic flows – other comprehensive income | | | | |
| Items that will not be reclassified to net result | | | | |
| (93) | Changes in non-financial assets revaluation surplus | | (22) | 3 660 |
| 256 | Remeasurement of superannuation defined benefit plans | | 1 259 | 915 |
| 68 | Other movements in equity | | (65) | 7 |
| Items that may be reclassified subsequently to net result | | | | |
| 6 | Net gain/(loss) on financial assets at fair value | | (6) | 1 |
| .. | Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets | | .. | (966) |
| 236 | Total other economic flows – other comprehensive income | | 1 165 | 3 617 |
| 607 | Comprehensive result – total change in net worth | | 1 662 | 4 504 |
| KEY FISCAL AGGREGATES | | | | |
| 480 | Net operating balance | | 555 | 1 153 |
| 8 | Less: Net acquisition of non-financial assets from transactions | 3.6 | 283 | 1 813 |
| 472 | Net lending/(borrowing) | | 272 | (660) |

The accompanying notes form part of these financial statements.

APPENDIX 1

Table 1.6: Consolidated balance sheet as at 30 September

(\$ million)

| 2016-17 Actual 30 Sep | | Notes | Opening 1 Jul | 2017-18 Actual 30 Sep | Budget 30 Jun ^(a) |
|-----------------------------|--|-------|------------------|-----------------------------|---------------------------------|
| Assets | | | | | |
| Financial assets | | | | | |
| 4 079 | Cash and deposits | 7.2 | 5 530 | 4 146 | 5 938 |
| 4 586 | Advances paid | | 12 939 | 12 179 | 10 230 |
| 5 866 | Receivables | 5.1 | 5 931 | 6 281 | 6 026 |
| 3 057 | Investments, loans and placements | | 3 673 | 3 895 | 2 889 |
| 47 | Investments accounted for using the equity method | | 47 | 48 | 47 |
| 95 473 | Investments in other sector entities | | 92 509 | 93 484 | 96 203 |
| 113 108 | Total financial assets | | 120 630 | 120 033 | 121 333 |
| Non-financial assets | | | | | |
| 186 | Inventories | | 173 | 173 | 175 |
| 183 | Non-financial assets held for sale | | 405 | 405 | 402 |
| 114 009 | Land, buildings, infrastructure, plant and equipment | 4.1 | 121 776 | 122 018 | 127 449 |
| 1 619 | Other non-financial assets ^(b) | 4.7 | 1 494 | 1 944 | 1 495 |
| 115 998 | Total non-financial assets ^(b) | | 123 849 | 124 539 | 129 521 |
| 229 106 | Total assets ^(b) | | | | |
| Liabilities | | | | | |
| 717 | Deposits held and advances received | | 9 088 | 8 403 | 6 439 |
| 5 481 | Payables | 5.2 | 5 815 | 5 722 | 5 841 |
| 34 551 | Borrowings | | 28 816 | 29 485 | 34 052 |
| 6 098 | Employee benefits | 3.2 | 6 506 | 6 329 | 6 747 |
| 29 044 | Superannuation | | 24 900 | 23 903 | 23 987 |
| 861 | Other provisions | | 1 326 | 1 043 | 1 256 |
| 76 751 | Total liabilities | | 76 451 | 74 884 | 78 323 |
| 152 355 | Net assets ^(b) | | 168 027 | 169 689 | 172 532 |
| 45 286 | Accumulated surplus/(deficit) ^(b) | | 51 464 | 53 145 | 53 275 |
| 107 069 | Reserves | | 116 563 | 116 544 | 119 257 |
| 152 251 | Net worth ^(b) | | 168 027 | 169 689 | 172 532 |
| FISCAL AGGREGATES | | | | | |
| 36 357 | Net financial worth | | 44 178 | 45 150 | 43 011 |
| 59 116 | Net financial liabilities | | 48 331 | 48 335 | 53 193 |
| 23 545 | Net debt | | 15 762 | 17 667 | 21 435 |

The accompanying notes form part of these financial statements.

Notes:

(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

(b) September 2016 comparative figures have been restated to reflect a subsequent adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates in 2016-17.

Table 1.7: Consolidated cash flow statement for the period ended 30 September (\$ million)

| 2016-17 Actual 30 Sep | Notes | 2017-18 Actual 30 Sep | Annual Budget |
|--|-------|-----------------------------|------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| 5 078 | | 5 491 | 21 688 |
| 6 699 | | 6 902 | 29 817 |
| 1 891 | | 1 984 | 8 076 |
| 169 | | 210 | 898 |
| 106 | | 57 | 1 174 |
| 317 | | 469 | 2 001 |
| 14 260 | | 15 114 | 63 655 |
| Payments | | | |
| (5 227) | | (5 748) | (22 773) |
| (743) | | (529) | (3 107) |
| (493) | | (476) | (2 144) |
| (2 670) | | (2 947) | (11 294) |
| (4 563) | | (5 179) | (20 005) |
| (194) | | (207) | (732) |
| (13 890) | | (15 086) | (60 054) |
| 370 | 7.3 | 28 | 3 601 |
| Cash flows from investing activities | | | |
| Cash flows from investments in non-financial assets | | | |
| (1 564) | 3.5 | (1 881) | (8 780) |
| 24 | | 45 | 503 |
| (1 540) | | (1 835) | (8 277) |
| (90) | | 672 | 2 348 |
| (1 630) | | (1 163) | (5 930) |
| (184) | | (232) | 801 |
| (1 813) | | (1 395) | (5 129) |
| Cash flows from financing activities | | | |
| (13) | | (707) | (2 649) |
| 740 | | 669 | 4 584 |
| 23 | | 22 | .. |
| 750 | | (16) | 1 935 |
| (693) | | (1 384) | 408 |
| 4 772 | | 5 530 | 5 530 |
| 4 079 | 7.2 | 4 146 | 5 937 |
| FISCAL AGGREGATES | | | |
| 370 | | 28 | 3 601 |
| (1 540) | | (1 835) | (8 277) |
| (1 170) | | (1 808) | (4 676) |

The accompanying notes form part of these financial statements.

Note:

(a) These items are inclusive of goods and services tax.

APPENDIX 1

Table 1.8: Consolidated statement of changes in equity for the period ending 30 September (\$ million)

| <i>General government sector</i> | <i>Accumulated surplus/(deficit)</i> | <i>Non-controlling Interest</i> | <i>Non-financial assets revaluation surplus</i> | <i>Investment in other sector entities revaluation surplus</i> | <i>Other reserves</i> | <i>Total</i> |
|--|--------------------------------------|---------------------------------|---|--|-----------------------|----------------|
| 2017-18 | | | | | | |
| Balance at 1 July 2017 | 51 464 | .. | 55 745 | 60 149 | 669 | 168 027 |
| Net result for the period | 497 | .. | .. | .. | .. | 497 |
| Other comprehensive income for the period | 1 184 | .. | (22) | .. | 4 | 1 165 |
| Total equity as at 30 September 2017 | 53 145 | .. | 55 723 | 60 149 | 673 | 169 689 |
| Budget equity as at 30 June 2018 ^(a) | 53 275 | .. | 59 405 | 59 183 | 669 | 172 532 |
| 2016-17 | | | | | | |
| Balance at 1 July 2016 ^(b) | 44 557 | 50 | 49 613 | 57 027 | 551 | 151 798 |
| Net result for the period | 370 | .. | .. | .. | .. | 370 |
| Other comprehensive income for the period | 359 | .. | (93) | .. | (29) | 236 |
| Transactions with owners in their capacity as owners | .. | (50) | .. | .. | .. | (50) |
| Total equity as at 30 September 2016 ^(b) | 45 286 | .. | 49 520 | 57 027 | 522 | 152 355 |

The accompanying notes form part of these financial statements.

Notes:

(a) Balances represent actual opening balances at 1 July 2017 plus 2017-18 budgeted movements.

(b) September 2016 comparative figures have been restated to reflect a subsequent adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates in 2016-17.

Appendix 1(c) – Extract of financial statements from the 2017-18 Mid-Year Financial Report

Table 1.9: Consolidated comprehensive operating statement for the six months ended 31 December

(\$ million)

| | Notes | State of Victoria | | General government sector | |
|---|----------|-------------------|---------------|---------------------------|---------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Revenue from transactions | | | | | |
| Taxation revenue | 2.1 | 10 524 | 10 467 | 10 708 | 10 662 |
| Interest revenue | | 337 | 327 | 415 | 375 |
| Dividends and income tax equivalent and rate equivalent revenue | 2.2 | 867 | 536 | 433 | 438 |
| Sales of goods and services | 2.3 | 7 338 | 7 063 | 3 637 | 3 416 |
| Grant revenue | 2.4 | 14 119 | 13 285 | 14 227 | 13 318 |
| Other revenue | 2.5 | 1 599 | 1 646 | 1 170 | 1 288 |
| Total revenue from transactions | | 34 783 | 33 325 | 30 591 | 29 498 |
| Expenses from transactions | | | | | |
| Employee expenses | | 11 875 | 10 977 | 11 296 | 10 436 |
| Net superannuation interest expense | 3.2 | 360 | 349 | 360 | 349 |
| Other superannuation | 3.2 | 1 328 | 1 215 | 1 255 | 1 148 |
| Depreciation | 4.2 | 2 478 | 2 406 | 1 312 | 1 256 |
| Interest expense | 5.4 | 1 346 | 1 373 | 1 009 | 1 012 |
| Grant expense | 3.3 | 3 446 | 3 608 | 5 064 | 4 924 |
| Other operating expenses | 3.4 | 13 905 | 12 991 | 9 344 | 8 987 |
| Total expenses from transactions | 3.5, 3.6 | 34 739 | 32 919 | 29 642 | 28 111 |
| Net result from transactions – net operating balance | | 44 | 406 | 950 | 1 387 |
| Other economic flows included in net result | | | | | |
| Net gain/(loss) on disposal of non-financial assets | | 34 | 3 | 21 | 15 |
| Net gain/(loss) on financial assets or liabilities at fair value | | 1 583 | 2 782 | 39 | 14 |
| Share of net profit/(loss) from associates/joint venture entities | | 38 | 26 | .. | (3) |
| Other gains/(losses) from other economic flows | 9.2 | 371 | 2 380 | (141) | (187) |
| Total other economic flows included in net result | | 2 026 | 5 190 | (81) | (161) |
| Net result | | 2 070 | 5 596 | 868 | 1 226 |
| Other economic flows – other comprehensive income | | | | | |
| Items that will not be reclassified to net result | | | | | |
| Changes in non-financial assets revaluation surplus | | 27 | (80) | (2) | (89) |
| Remeasurement of superannuation defined benefits plans | 3.2 | 763 | 2 979 | 759 | 2 984 |
| Other movements in equity | | | | | |
| Items that may be reclassified subsequently to net result | | | | | |
| Net gain/(loss) on financial assets at fair value | | 49 | 25 | 25 | 18 |
| Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets | | .. | .. | 686 | 644 |
| Total other economic flows – other comprehensive income | | 679 | 3 023 | 1 360 | 3 640 |
| Comprehensive result – total change in net worth | | 2 749 | 8 619 | 2 229 | 4 866 |
| KEY FISCAL AGGREGATES | | | | | |
| Net operating balance | | 44 | 406 | 950 | 1 387 |
| Less: Net acquisition of non-financial assets from transactions | 9.1 | 3 484 | 1 254 | 1 751 | 171 |
| Net lending/(borrowing) | | (3 439) | (848) | (801) | 1 216 |

The accompanying notes form part of these financial statements.

APPENDIX 1

Table 1.10: Consolidated balance sheet as at 31 December

(\$ million)

| | Notes | State of Victoria | | General government sector | |
|--|-------|-------------------|----------------|---------------------------|----------------|
| | | Dec 2017 | Jun 2017 | Dec 2017 | Jun 2017 |
| Assets | | | | | |
| Financial assets | | | | | |
| Cash and deposits | 5.2 | 5 835 | 5 869 | 3 992 | 5 530 |
| Advances paid | 5.3 | 309 | 280 | 11 986 | 12 939 |
| Receivables | 6.2 | 8 432 | 8 038 | 5 807 | 5 931 |
| Investments, loans and placements | 5.3 | 41 375 | 42 806 | 4 159 | 3 673 |
| Investments accounted for using the equity method | 4.5 | 2 187 | 2 187 | 47 | 47 |
| Investments in other sector entities | | .. | .. | 95 297 | 92 509 |
| Total financial assets | | 58 139 | 59 180 | 121 290 | 120 630 |
| Non-financial assets | | | | | |
| Inventories | 6.1 | 817 | 671 | 176 | 173 |
| Non-financial assets held for sale | | 455 | 432 | 438 | 405 |
| Land, buildings, infrastructure, plant and equipment | 4.1 | 241 994 | 238 886 | 123 323 | 121 776 |
| Other non-financial assets | 4.4 | 2 917 | 2 648 | 1 763 | 1 494 |
| Total non-financial assets | | 246 185 | 242 637 | 125 700 | 123 849 |
| Total assets | 3.6 | 304 323 | 301 818 | 246 990 | 244 478 |
| Liabilities | | | | | |
| Deposits held and advances received | | 1 542 | 1 940 | 8 252 | 9 088 |
| Payables | 6.3 | 17 996 | 17 233 | 5 542 | 5 815 |
| Borrowings | 5.1 | 48 453 | 48 847 | 30 995 | 28 816 |
| Employee benefits | 3.1 | 7 076 | 7 034 | 6 555 | 6 506 |
| Superannuation | 6.4 | 24 472 | 24 938 | 24 438 | 24 900 |
| Other provisions | 6.5 | 29 802 | 29 592 | 953 | 1 326 |
| Total liabilities | | 129 341 | 129 584 | 76 734 | 76 451 |
| Net assets | | 174 983 | 172 234 | 170 256 | 168 027 |
| Accumulated surplus/(deficit) | | 77 806 | 75 137 | 52 965 | 51 464 |
| Reserves | | 97 176 | 97 096 | 117 290 | 116 563 |
| Net worth | | 174 983 | 172 234 | 170 256 | 168 027 |
| FISCAL AGGREGATES | | | | | |
| Net financial worth | | (71 202) | (70 404) | 44 555 | 44 178 |
| Net financial liabilities | | 71 202 | 70 404 | 50 742 | 48 331 |
| Net debt | | 2 475 | 1 833 | 19 109 | 15 762 |

The accompanying notes form part of these financial statements.

Table 1.11: Consolidated cash flow statement for the six months ended 31 December (\$ million)

| | Notes | State of Victoria | | General government sector | |
|--|----------|-------------------|-----------------|---------------------------|-----------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Cash flows from operating activities | | | | | |
| Receipts | | | | | |
| Taxes received | | 10 815 | 10 688 | 10 999 | 10 883 |
| Grants | | 14 118 | 13 288 | 14 226 | 13 320 |
| Sales of goods and services ^(a) | | 9 058 | 17 833 | 4 077 | 3 781 |
| Interest received | | 231 | 240 | 416 | 377 |
| Dividends and income tax equivalent and rate equivalent receipts | | 867 | 536 | 477 | 523 |
| Other receipts | | 1 225 | 1 306 | 909 | 833 |
| Total receipts | | 36 314 | 43 891 | 31 104 | 29 715 |
| Payments | | | | | |
| Payments for employees | | (11 813) | (10 855) | (11 228) | (10 286) |
| Superannuation | | (1 394) | (1 313) | (1 318) | (1 237) |
| Interest paid | | (1 334) | (1 416) | (990) | (1 022) |
| Grants and subsidies | | (3 712) | (3 243) | (5 455) | (5 087) |
| Goods and services ^(a) | | (14 172) | (12 318) | (9 984) | (9 480) |
| Other payments | | (393) | (404) | (393) | (373) |
| Total payments | | (32 818) | (29 549) | (29 368) | (27 485) |
| Net cash flows from operating activities | | 3 497 | 14 342 | 1 736 | 2 230 |
| Cash flows from investing activities | | | | | |
| Cash flows from investments in non-financial assets | | | | | |
| Purchases of non-financial assets | 3.5, 3.6 | (5 625) | (3 938) | (4 570) | (3 121) |
| Sales of non-financial assets | | 164 | 116 | 96 | 65 |
| Net cash flows from investments in non-financial assets | | (5 462) | (3 821) | (4 473) | (3 056) |
| Net cash flows from investments in financial assets for policy purposes ^(b) | | (17) | (5) | 718 | (850) |
| Sub-total | | (5 478) | (3 826) | (3 756) | (3 906) |
| Net cash flows from investments in financial assets for liquidity management purposes | | 2 772 | (5 624) | (426) | (2 638) |
| Net cash flows from investing activities | | (2 707) | (9 450) | (4 181) | (6 544) |
| Cash flows from financing activities | | | | | |
| Advances received (net) | | 25 | 22 | (937) | 9 579 |
| Net borrowings | | (424) | (4 092) | 1 744 | (5 827) |
| Deposits received (net) | | (424) | (932) | 101 | 109 |
| Net cash flows from financing activities | | (823) | (5 001) | 908 | 3 860 |
| Net increase/(decrease) in cash and cash equivalents | | (33) | (109) | (1 537) | (453) |
| Cash and cash equivalents at beginning of reporting period ^(c) | | 5 868 | 6 676 | 5 530 | 4 772 |
| Cash and cash equivalents at end of reporting period | 5.2 | 5 835 | 6 567 | 3 992 | 4 319 |
| FISCAL AGGREGATES | | | | | |
| Net cash flows from operating activities | | 3 497 | 14 342 | 1 736 | 2 230 |
| Net cash flows from investments in non-financial assets | | (5 462) | (3 821) | (4 473) | (3 056) |
| Cash surplus/(deficit) | | (1 965) | 10 521 | (2 738) | (825) |

The accompanying notes form part of these financial statements.

Notes:

(a) These items are inclusive of goods and services tax.

(b) Includes net advances to public non-financial corporations for policy purposes of \$979 million for the six months ended 31 December.

(c) Cash and cash equivalents at the beginning of the reporting period does not equal cash and deposits on the balance sheet for the State of Victoria. This is due to overdrafts being included in the cash flow statement balances.

APPENDIX 1

Table 1.12: Statement of changes in equity for the six months ended 31 December (\$ million)

| <i>State of Victoria</i> | <i>Accumulated surplus/(deficit)</i> | <i>Non-controlling interest</i> |
|--|--------------------------------------|---------------------------------|
| 2017 | | |
| Balance at 1 July 2017 | 75 137 | .. |
| Net result for the year | 2 070 | .. |
| Other comprehensive income for the year | 573 | .. |
| Transfer to accumulated surplus | 26 | .. |
| Total equity as at 31 December 2017 | 77 806 | .. |
| 2016 | | |
| Balance at 1 July 2016 ^(a) | 56 337 | 50 |
| Net result for the year | 5 596 | .. |
| Other comprehensive income for the year | 3 031 | .. |
| Transfer to/(from) accumulated surplus | 7 876 | .. |
| Transactions with owners in their capacity as owners | .. | (50) |
| Total equity as at 31 December 2016 | 72 840 | .. |

The accompanying notes form part of these financial statements.

Note:

(a) December 2016 comparative figures have been restated to reflect a subsequent adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates in 2016-17.

(\$ million)

| <i>General government sector</i> | <i>Accumulated surplus/(deficit)</i> | <i>Non-controlling interest</i> |
|--|--------------------------------------|---------------------------------|
| 2017 | | |
| Balance at 1 July 2017 | 51 464 | .. |
| Net result for the year | 868 | .. |
| Other comprehensive income for the year | 633 | .. |
| Total equity as at 31 December 2017 | 52 965 | .. |
| 2016 | | |
| Balance at 1 July 2016 ^(a) | 44 557 | 50 |
| Net result for the year | 1 226 | .. |
| Other comprehensive income for the year | 3 035 | .. |
| Transactions with owners in their capacity as owners | .. | (50) |
| Total equity as at 31 December 2016 | 48 817 | .. |

The accompanying notes form part of these financial statements.

Note:

(a) December 2016 comparative figures have been restated to reflect a subsequent adjustment to the Department of Environment, Land, Water and Planning's intangible produced assets and opening accumulated surplus/(deficit) balances due to the first-time recognition of Renewable Energy Certificates in 2016-17.

| <i>Non-financial assets revaluation surplus</i> | <i>Other reserves</i> | <i>Total</i> |
|---|---------------------------|----------------|
| 95 897 | 1 199 | 172 234 |
| .. | .. | 2 070 |
| 27 | 78 | 679 |
| (26) | .. | .. |
| 95 899 | 1 277 | 174 983 |
| 94 965 | 1 042 | 152 291 |
| .. | .. | 5 596 |
| (89) | 71 | 3 014 |
| (7 876) | .. | .. |
| .. | .. | (50) |
| 87 001 | 1 114 | 160 852 |

| <i>Non-financial assets revaluation surplus</i> | <i>Investment in other sector entities revaluation surplus</i> | <i>Other reserves</i> | <i>Total</i> |
|---|--|-----------------------|----------------|
| 55 745 | 60 149 | 669 | 168 027 |
| .. | .. | .. | 868 |
| (2) | 686 | 44 | 1 360 |
| 55 743 | 60 835 | 712 | 170 256 |
| 49 613 | 57 027 | 551 | 151 798 |
| .. | .. | .. | 1 226 |
| (89) | 644 | 50 | 3 640 |
| .. | .. | .. | (50) |
| 49 524 | 57 671 | 602 | 156 511 |

Appendix 1(d) – Analysis of disclosures made in Victorian financial publications

Refer to footnotes for additional information about individual disclosures balance sheet

Glossary

E – Estimated; A – Actual; F – Fictitious (for Model Report)

| | <i>Model Report for Victorian Government Departments 2017-18</i> | <i>2017-18 Budget Paper No. 5^(e)</i> | <i>2016-17 Quarterly Financial Report No. 3</i> | <i>2016-17 Financial Report^(b)</i> | <i>2017-18 Quarterly Financial Report No. 1</i> | <i>2017-18 Budget Update</i> | <i>2017-18 Mid-Year Financial Report^(c)</i> | <i>November 2014 Pre-Election Budget Update</i> |
|--|--|---|---|---|---|------------------------------|--|---|
| Financial statements | | | | | | | | |
| Comprehensive operating statement (COS) | F | E | A | A | A | E | A | E |
| Balance sheet | F | E | A | A | A | E | A | E |
| Statement of changes in equity | F | E | A | A | A | E | A | E |
| Cash flow statement | F | E | A | A | A | E | A | E |
| Notes to the financial statements | | | | | | | | |
| Statement of significant accounting policies/statement of significant accounting policies and forecast assumptions | 1 | 1.1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Disaggregated information ^(d) | | | | 9.1 | | | 9.1 | |
| Departmental (controlled) outputs ^(e) | 4.1 | | | | | | | |
| Administered (non-controlled) items ^(e) | 4.2 | | | | | | | |
| Income from transactions | 2.4 | | | | | | | |
| Taxation ^(d) | | 1.2.1 | 2 | 2.1 | 2.1 | 2 | 2.1 | 2 |
| Interest | 2.4.1 | | | 2.2 | | | | |
| Fines | | | | 2.6 | | | | |
| Dividends and income tax equivalent and rate equivalent income | 2.4.5 | 1.2.2 | 3 | 2.3 | 2.2 | 3 | 2.2 | 3 |
| Grants | 2.4.3 | 1.2.4 | 5 | 2.5 | 2.4 | 5 | 2.4 | 5 |
| Sale of goods and services | 2.4.2 | 1.2.3 | 4 | 2.4 | 2.3 | 4 | 2.3 | 4 |
| Fair value of assets received free of charge or for nominal consideration | 2.4.4 | 1.2.5 | | | | | | |
| Other revenue | 2.4.5 | 1.2.5 | 6 | 2.6 | 2.5 | 6 | 2.6 | 6 |
| Expenses from transactions | 3.1 | | | | | | | |
| Superannuation | 3.1.3 | 1.3.2 | 7 | 3.2 | 3.3 | 7 | 3.2 | 7 |
| Depreciation | 5.1.1 | 1.4.2 | 8 | 4.1.2 | 4.2 | 8 | 4.2 | 8 |
| Interest expense | 7.1.2 | 1.5.3 | | 5.5 | | 9 | 5.4 | 9 |
| Grants and other transfers | 3.2 | 1.3.3 | | 3.3 | | 10 | 3.3 | 10 |
| Other operating expenses | 3.4 | 1.3.4 | | 3.4 | | 11 | 3.4 | |
| Other economic flows included in net result | 9.2 | | | | | | | |
| Net gain/(loss) from non-financial assets | 9.2 | | | 4.1.3 | | | | |
| Other gains/(losses) from other economic flows | 9.2 | 1.7.1 | 10 | 9.3 | 7.1 | 13 | 9.2 | 13 |
| Total expenses from transactions by departments ^(d) | | 1.3.5 | 9(b) | 3.5 | 3.4 ^(b) | | 3.5 | 12 ^(b) |
| Total expenses by government purpose classification/function ^(d) | | 1.3.5 | 9(a) | 3.6 | 3.4 ^(a) | 12 | 3.6 | 12 ^(a) |
| Revision of accounting estimates | 9.6 | | | | | | | |
| Correction of errors | 9.6 | | | | | | | |
| Restructuring of administrative arrangements | 4.3 | | | | | | | |
| Discontinued operations | 9.3 | | | | | | | |
| Receivables | 6.1 | | 12 | 6.3 | 5.1 | | 6.2 | |
| Investments and other financial assets | 5.6 | 1.6.1 | | 5.4 | | 16 | 5.3 | 16 |
| Investments accounted for using the equity method | 5.5 | | | 4.4 | | | 4.6 | |
| Interests in subsidiary and unconsolidated structured entities | 5.5 | | | | | | | |

| | <i>Model Report for Victorian Government Departments 2017-18</i> | <i>2017-18 Budget Paper No. 5^(a)</i> | <i>2016-17 Quarterly Financial Report No. 3</i> | <i>2016-17 Financial Report^(b)</i> | <i>2017-18 Quarterly Financial Report No. 1</i> | <i>2017-18 Budget Update</i> | <i>2017-18 Mid-Year Financial Report^(c)</i> | <i>November 2014 Pre-Election Budget Update</i> |
|--|--|---|---|---|---|------------------------------|--|---|
| Non-financial physical assets classified as held for sale including disposal group and directly associated liabilities | 9.3.6 | | | 4.3 | | | 4.5 | |
| Inventories | 6.3 | | | 6.2 | | | 6.1 | |
| Property, plant and equipment | 5.1 | 1.4.1 | 13 | 4.1 | 4.1 | 17 | 4.1 | 17 |
| Reconciliation of movements in property, plant and equipment | 5.1.3 | 1.4.3 | | 4.1.4 | 4.3-4.6 | 18 | 4.1 | 18 |
| Biological assets | 5.3 | | 14 | 4.2 | 4.7 | 19 | 4.4 | |
| Investment properties | 5.2 | | 14 | 4.2 | 4.7 | 19 | 4.4 | |
| Intangible assets | 5.4 | | 14 | 4.2 | 4.7 | 19 | 4.4 | |
| Other non-financial assets | 6.4 | 1.4.4 | 14 | 4.2 | 4.7 | 19 | 4.4 | |
| Payables | 6.2 | 1.6.2 | 15 | 6.4 | 5.2 | 21 | 6.3 | 20 |
| Borrowings | 7.1 | 1.5.1 | | 5.1 | | 22 | 5.1 | 21 |
| Provisions | 6.5 | | | 6.6 | | | 6.5 | |
| Employee benefits | 3.1.2 | 1.3.1 | 16 | 3.1 | 3.2 | 23 | 3.1 | 22 |
| Reconciliation of net gain/(loss) on equity investments in other sector entities at proportional share of net assets | | | | 6.1 | | 14 | | 14 |
| Net acquisition of non-financial assets | | 1.3.7 | 11 | | 3.6 | 15 | | 15 |
| Assets received as collateral | 8.1.3 | | | | | | | |
| Assets pledged as security | 7.6 | | | | | | | |
| De-recognition of financial assets | 6.1 | | | | | | | |
| Superannuation | 3.1.3 | 1.6.3 | 7 | 6.5 | | 7 | 6.4 | 7 |
| Assets classified by government purpose classification | 5.1.3 | 1.4.5 | | 3.6 | 4.8 | 20 | 3.6 | 19 ^(a) |
| Other asset and liability disclosures | 6 | | | | | | | |
| Leases | 7.2 | | | | | | | |
| Purchase of non-financial assets by department | | 1.3.6 | | | 3.5 | 20 ^(b) | | 19 ^(b) |
| Commitments | 7.5 | | | 5.7 | | | 5.5 | |
| Contingent assets and liabilities | 8.2 | | | 7.2 | | | 7.2 | |
| Financial instruments | 8.1 | 1.7.3 | | 7.1 | | 26 | 7.1 | 25 |
| Cash flow information | 7.3 | | 18 | 5.3 | 7.3 | | 5.2 | |
| Reserves | 9.4 | | | 29 | | 24 | | 23 |
| Reconciliations to Government Finance Statistics | | 1.7.2 | | 9.4 | | 25 | | 24 |
| Summary of compliance with annual parliamentary and special appropriations/Public Account disclosure | 2.3 | | 18 | 8.2 | 6 | | 8 | |
| Ex gratia payments | 9.1 | | | | | | | |
| Annotated income agreements | 2.5 | | | | | | | |
| Trust account balances/Funds under management | 7.4 | | | 9.2 | | | | |
| Responsible persons | 9.7 | | | | | | | |
| Remuneration of executives | 9.8 | | | | | | | |
| Related parties | 9.9 | | | | | | | |
| Remuneration of auditors | 9.10 | | | | | | | |
| Subsequent events | 9.11 | | | 9.5 | | | | |
| Glossary of terms | 9.14 | | | 9.8 | 7.5 | | | |
| Controlled entities ^(d) | | 1.7.5 | | 9.7 | 7.4 | 27 | 9.3 | 26 |

Notes:

(a) Incorporates general government sector Quarterly Financial Report No. 3.

(b) Incorporates general government sector Quarterly Financial Report No. 4.

(c) Incorporates general government sector Quarterly Financial Report No. 2.

(d) Notes specific to government sector reporting.

(e) Notes specific to the Model Report for departmental reporting.

APPENDIX 2: BUDGETARY REPORTING: EXPLANATION OF MATERIAL VARIANCES BETWEEN BUDGET AND ACTUAL OUTCOMES

The requirements for budgetary reporting are detailed in AASB 1055 *Budgetary Reporting*. The standard applies to the general government sector and the not-for-profit entities within the general government sector for year ending 30 June 2017 and requires:

- where the entity's budgeted financial statements (i.e. comprehensive operating statement, balance sheet, cash flow statement or statement of changes in equity) for controlled items are presented to the Parliament and are separately identified as relating to the entity, the entity should disclose for the reporting period:
 - the original budgeted financial statement presented to Parliament, presented and classified on a basis that is consistent with the presentation and classification adopted in the corresponding financial statements prepared in accordance with Australian Accounting Standards; and
 - explanations of major variances between the actual amounts presented in the financial statements and the corresponding original budget amounts.
- where the entity's budgeted financial information for major classes of administered income and expense, or major classes of administered assets and liabilities, is presented to Parliament and is separately identified as relating to that entity, the entity should disclose for the reporting period:
 - the original budgeted financial information presented to parliament, presented and classified on a basis that is consistent with the presentation and classification adopted to comply with AASB 1050 *Administered Items*; and
 - explanations of major variances between the actual disclosed amounts in the financial statements in accordance with AASB 1050 and the corresponding original budget amounts.

Comparative budgetary information in respect of the previous period need not be disclosed.

Additional guidance

1. This standard is expected to have little impact for a majority of departments and entities, as the budgeted financial statements presented to Parliament are portfolio budgetary information that is not separately identifiable for individual reporting entities.
2. The explanations of major variances required to be disclosed are those relevant to an assessment of the discharge of accountability and to an analysis of performance of an entity, not merely focusing on the numerical differences between original budget and actual amounts. They include high-level explanations of the causes of major variances rather than merely the nature of the variances. Furthermore, if revised budgets are presented to Parliament, even when there are no major numerical differences between the original budget and actual amounts, an entity might need to have regard to those revised budgets and include explanations for major numerical differences between them and actual amounts.

[Where applicable, entities are required to include the information illustrated in this Appendix in a note to the financial statements.]

Comprehensive operating statement for the financial year ended 30 June 2017

(\$ thousand)

Source reference

AASB 1055.6

| <i>For illustrative purposes only</i> | <i>Notes</i> | <i>Original Budget 2017</i> | <i>Actual 2017</i> | <i>Variance</i> |
|--|--------------|-------------------------------------|------------------------|-----------------|
| Continuing operations | | | | |
| Income from transactions | | | | |
| Output appropriations | a | 85 535 | 63 682 | (21 853) |
| Special appropriations | b | 8 128 | 11 396 | 3 268 |
| Interest | | 3 864 | 2 897 | (210) |
| Sale of goods and services | | 1 839 | 1 346 | (493) |
| Grants | | 306 | 140 | (166) |
| Fair value of assets and services received free of charge or for nominal consideration | | 1 589 | 1 708 | 119 |
| Other income | c | 6 213 | 5 091 | 1 122 |
| Total income from transactions | | 107 474 | 86 260 | (18 213) |
| Expenses from transactions | | | | |
| Employee expenses | d | (13 767) | (10 970) | (11 203) |
| Depreciation | e | (15 099) | (12 157) | 5 942 |
| Interest expense | | (2 366) | (2 336) | .. |
| Grant expenses | f | (32 883) | (43 040) | 9 843 |
| Capital asset charge | | (1 309) | (720) | 589 |
| Other operating expenses | g | (15 828) | (8 197) | (6 369) |
| Total expenses from transactions | | (81 252) | (77 421) | (1 168) |
| Net result from transactions (net operating balance) | | 26 223 | 8 839 | (19 381) |
| Other economic flows included in net result | | | | |
| Net gain/(loss) on non-financial assets | | (5 161) | 1 805 | 6 966 |
| Net gain/(loss) on financial instruments | | (5 891) | (3 971) | 1 920 |
| Share of net profits/(losses) of associates and joint entities, excluding dividends | | 1 286 | 1 397 | 111 |
| Other gains/(losses) from other economic flows | | (2 895) | (2 047) | 848 |
| Total other economic flows included in net result | | (12 661) | (2 816) | 9 845 |
| Net result from continuing operations | | 13 562 | 6 023 | (7 539) |
| Net result from discontinued operations | | 1 229 | 3 856 | 2 627 |
| Net result | | 14 790 | 9 879 | (4 911) |
| Other economic flows – other comprehensive income | | | | |
| Items that will not be reclassified to net result | | | | |
| Changes in physical asset revaluation surplus | | 7 403 | 2 825 | (4 578) |
| Share of net movement in revaluation surplus of associates and joint ventures | | 260 | 280 | 20 |
| Items that may be reclassified subsequently to net result | | | | |
| Changes to financial assets available-for-sale revaluation surplus | | (1 250) | 996 | 2 246 |
| Total other economic flows – other comprehensive income | | 6 413 | 4 101 | (2 312) |
| Comprehensive result | | 21 203 | 13 980 | (7 223) |

The following are brief explanations for major variances that are assessed to be relevant for the entity's performance analysis, and the discharge of accountability.

Notes:

- (a) Output appropriations were lower than the original budget primarily due to a number of machinery of government changes resulting in an adjustment to the 2015-16 appropriations.
- (b) Special appropriations were higher than the original budget due to the approved financing of a particular project.
- (c) Other income was higher than the original budget primarily due to higher rental income received from investment properties.
- (d) Employee expenses were greater than the original budget largely due an increase to the long service leave (LSL) expense. The LSL expense increased because of an increase in the number of staff achieving long-term tenure and the increased EBA wage rates.
- (e) Depreciation was lower than the original budget due to leasehold improvements assets being classified as work-in-progress and not being depreciated in the current year.
- (f) Grants and other transfers were lower than the original budget due to the grant program for restoring heritage assets being abolished.
- (g) Other operating expenses were higher than the original budget due to the increased level of rent and utility expenses.

APPENDIX 2

Balance sheet as at 30 June 2017

(\$ thousand)

Source reference

AASB 1055.6

| <i>For illustrative purposes only</i> | Notes ^(a) | Original Budget 2017 | Actual 2017 | Variance |
|---|----------------------|----------------------------|----------------|-----------------|
| Assets | | | | |
| Financial assets | | | | |
| Cash and deposits | | 59 528 | 48 648 | (10 880) |
| Receivables | | 36 045 | 20 544 | (15 501) |
| Financial assets classified as held for sale including disposal group assets | | 8 572 | 11 757 | 3 185 |
| Investments and other financial assets | | 13 976 | 16 731 | 2 755 |
| Investments accounted for using the equity method | | 5 187 | 6 112 | 925 |
| Total financial assets | | 123 308 | 103 792 | (19 516) |
| Non-financial assets | | | | |
| Inventories | | 12 056 | 19 733 | 7 677 |
| Non-financial physical assets classified as held for sale including disposal group assets | | 6 781 | 14 599 | 7 818 |
| Property, plant and equipment | | 83 044 | 76 807 | (6 237) |
| Biological assets | | 4 034 | .. | (4 034) |
| Investment properties | | 2 354 | 5 029 | 2 675 |
| Intangible assets | | 5 974 | 7 447 | 1 473 |
| Other non-financial assets | | 1 483 | 380 | (1 103) |
| Total non-financial assets | | 115 726 | 123.995 | 8 269 |
| Total assets | | 239 034 | 227 787 | (11 247) |
| Liabilities | | | | |
| Payables | | 17 591 | 16 704 | (887) |
| Borrowings | | 62 074 | 65 548 | 3 474 |
| Provisions | | 12 906 | 21 011 | 8 105 |
| Other liabilities | | 592 | 583 | (9) |
| Liabilities directly associated with assets classified as held for sale including disposal groups | | 4 438 | 8 980 | 4 542 |
| Total liabilities | | 97 601 | 112 826 | 15 225 |
| Net assets | | 141 432 | 114 961 | (26 471) |
| Equity | | | | |
| Accumulated surplus/(deficit) | | 76 434 | 71 113 | (5 301) |
| Physical asset revaluation surplus | | 7 338 | 3 759 | (3 579) |
| Financial assets available-for sale revaluation surplus | | 200 | 1 723 | 1 523 |
| Contributed capital | | 57 460 | 38 345 | (19 115) |
| Net worth | | 141 432 | 114 961 | (26 472) |

Note:

(a) Entities are required to disclose a brief explanation for any major variances identified.

Cash flow statement for the financial year ended 30 June 2017

(\$ thousand)

Source reference

AASB 1055.6

| <i>For illustrative purposes only</i> | Notes ^(a) | Original budget 2017 | Actual 2017 | Variance |
|--|----------------------|----------------------------|-----------------|-----------------|
| Cash flows from operating activities | | | | |
| Receipts | | | | |
| Receipts from government | | 78 344 | 87 135 | 8 791 |
| Receipts from other entities | | 5 536 | 4 373 | (1 163) |
| Interest received | | 1 749 | 1 606 | (143) |
| Dividends received ^(a) | | 1 698 | 1 611 | (87) |
| Other receipts | | 516 | 262 | (254) |
| Total receipts | | 87 843 | 94 987 | 7 144 |
| Payments | | | | |
| Payments of grant expenses | | (36 227) | (47 011) | (10 784) |
| Payments to suppliers and employees | | (22 979) | (19 167) | 3 812 |
| Goods and services tax paid to the ATO | | (3 055) | (3 497) | (442) |
| Capital asset charge payments | | (1 567) | (952) | 615 |
| Interest and other costs of finance paid | | (2 427) | (2 507) | (80) |
| Other payments | | (6 382) | (3 200) | 3 182 |
| Total payments | | (72 637) | (76 334) | (3 697) |
| Net cash flows from/(used in) operating activities | | 15 207 | 18 654 | 3 447 |
| Cash flows from investing activities | | | | |
| Payments for investments | | (6 364) | (13 386) | (7 022) |
| Proceeds from sale of investments | | 7 857 | 2 409 | 5 448 |
| Purchases of non-financial assets | | (23 828) | (19 438) | 4 390 |
| Sales of non-financial assets | | 2 855 | 7 428 | 4 573 |
| Loans granted to other parties | | (390) | (277) | 113 |
| Repayments of loans from other parties | | 78 | 140 | 62 |
| Proceeds from disposal of activity | | 17 795 | .. | (17 795) |
| Payments for purchase of activity | | (23 407) | .. | (5) |
| Net cash flows from/(used in) investing activities | | (25 403) | (23 124) | 23 407 |
| Cash flows from financing activities | | | | |
| 3 072 | | | | |
| Cash received from activities transferred in – MoG changes | | 5 | .. | 5 346 |
| Cash transferred on activities transferred out – MoG changes | | (3 072) | .. | |
| Owner contributions by State Government – appropriation for capital expenditure purposes | | 5 750 | 10 500 | 4 750 |
| Proceeds from borrowings | | 34 673 | 7 255 | (27 418) |
| Repayment of borrowings and finance leases | | (6 749) | (4 044) | 2 705 |
| Net cash flows from/(used in) financing activities | | 30 607 | 13 711 | (19 963) |
| Net increase/(decrease) in cash and cash equivalents | | 20 411 | 9 241 | (11 170) |
| Cash and cash equivalents at beginning of financial year | | 44 494 | 35 094 | (9 400) |
| Effect of exchange rate fluctuations on cash held in foreign currency | | (471) | 160 | 631 |
| Cash and cash equivalents at end of financial year | | 64 434 | 44 494 | (19 940) |

Notes:

(a) Entities are required to disclose a brief explanation for any major variances identified.

Statement of changes in equity for the financial year ended 30 June 2017

(\$ thousand)

Source reference
AASB 1055.6

| | Note ^(a) | Physical asset revaluation surplus | Available for sale financial asset revaluation surplus | Accumulated surplus | Contributions by owner | Total |
|---|---------------------|---------------------------------------|---|------------------------|---------------------------|----------------|
| 2016-17 original budget | | | | | | |
| Balance at 1 July 2016 | | 3 759 | 1 723 | 71 133 | 38 345 | 114 960 |
| Net result for the year | | .. | .. | 14 790 | .. | 14 790 |
| Other comprehensive income for the year | | 7 500 | (1 200) | .. | .. | 6 300 |
| Transfer to accumulated surplus – on disposal of business | | (3 396) | (323) | 3 719 | .. | .. |
| Transfer to accumulated surplus | | (600) | .. | 637 | .. | 37 |
| Transfer to contributed capital ^(a) | | .. | .. | (13 847) | 13 847 | .. |
| Capital appropriations | | .. | .. | .. | 5 750 | 5 750 |
| Administrative restructure – net assets received | | .. | .. | .. | 19 616 | 19 616 |
| Administrative restructure – net assets transferred | | .. | .. | .. | (20 097) | (20 097) |
| Balance as at 30 June 2017 | | 7 263 | 200 | 76 432 | 57 461 | 141 356 |
| 2016-17 actuals | | | | | | |
| Balance at 1 July 2016 | | 3 759 | 1 723 | 71 133 | 38 345 | 114 960 |
| Net result for the year | | .. | .. | 14 790 | .. | 14 790 |
| Other comprehensive income for the year | | 7 613 | (1 000) | .. | .. | 6 613 |
| Transfer to accumulated surplus – on disposal of business | | (3 396) | (323) | 3 719 | .. | .. |
| Transfer to accumulated surplus | | (637) | .. | 637 | .. | .. |
| Transfer to contributed capital ^(a) | | .. | .. | (13 847) | 13 847 | .. |
| Capital appropriations | | .. | .. | .. | 8 000 | 8 000 |
| Administrative restructure – net assets received | | .. | .. | .. | 20 100 | 20 100 |
| Administrative restructure – net assets transferred | | .. | .. | .. | (20 097) | (20 097) |
| Balance as at 30 June 2017 | | 7 339 | 400 | 76 432 | 60 195 | 144 366 |
| Variance to original budget | | | | | | |
| Balance at 1 July 2016 | | .. | .. | .. | .. | .. |
| Net result for the year | | .. | .. | .. | .. | .. |
| Other comprehensive income for the year | | 113 | 200 | .. | .. | 313 |
| Transfer to accumulated surplus – on disposal of business | | .. | .. | .. | .. | .. |
| Transfer to accumulated surplus | | (37) | .. | .. | .. | (37) |
| Transfer to contributed capital ^(a) | | .. | .. | .. | .. | .. |
| Capital appropriations | | .. | .. | .. | 2 250 | 2 250 |
| Administrative restructure – net assets received | | .. | .. | .. | 484 | 484 |
| Administrative restructure – net assets transferred | | .. | .. | .. | .. | .. |
| Balance as at 30 June 2017 | | 76 | 200 | .. | 2 734 | 3 010 |

Note:

^(a) Entities are required to disclose a brief explanation for any major variances identified.

Administered items

(\$ thousand)

Source reference

AASB 1055.7

| <i>For illustrative purposes only</i> | Notes ^(a) | Original budget 2017 | Actual 2017 | Variance |
|---|----------------------|----------------------------|-----------------|----------------|
| Administered income from transactions | | | | |
| Appropriations – payments made on behalf of the State | | 6 786 | 6 245 | (541) |
| Sales of goods and services [include fees] | | 5 887 | 5 634 | (253) |
| Grants | | 871 | 1 790 | 919 |
| Taxation income | | .. | .. | .. |
| Fines | | .. | .. | .. |
| Refunds and other miscellaneous income | | .. | .. | .. |
| Total administered income from transactions | | 13 544 | 13 669 | 125 |
| Administered expenses from transactions | | | | |
| Payments made on behalf of the State | | (6 786) | (6 245) | 541 |
| Payments into the consolidated fund | | (6 758) | (7 424) | (666) |
| Total administered expenses from transactions | | (13 544) | (13 669) | (125) |
| Total administered net result from transactions (net operating balance) | | .. | .. | .. |
| Administered other economic flows included in administered net result | | | | |
| Net gain/(loss) on non-financial assets | | .. | .. | .. |
| Net gain/(loss) on financial instruments | | 253 | (156) | (409) |
| Share of net profits/(losses) of associates and joint entities, excluding dividends | | .. | .. | .. |
| Other gains/(losses) from other economic flows | | .. | .. | .. |
| Total administered other economic flows | | 253 | (156) | (409) |
| Administered net result | | 253 | (156) | (409) |
| Administered other economic flows – other comprehensive income | | | | |
| Items that will not be reclassified to administered net result | | | | |
| Adjustment to accumulated surplus/(deficit) due to change in accounting policy | | .. | 153 | 153 |
| Changes in physical asset revaluation surplus | | .. | .. | .. |
| Total administered other economic flows – other comprehensive income | | .. | 153 | 153 |
| Total administered comprehensive result | | 253 | (3) | (256) |
| Administered financial assets | | | | |
| Receivables | | 443 | 746 | 303 |
| Investments | | 5 897 | 4 378 | (1 519) |
| Total administered financial assets | | 6 340 | 5 124 | (1 216) |
| Administered non-financial assets | | | | |
| Inventories | | .. | .. | .. |
| Prepayments | | 578 | 872 | 294 |
| Total administered non-financial assets | | 578 | 872 | 294 |
| Total administered assets | | 6 918 | 5 996 | (922) |
| Administered liabilities | | | | |
| Creditors and accruals | | 1 364 | 1 093 | (271) |
| Amounts owing to other departments | | .. | .. | .. |
| Interest bearing liabilities | | 2 015 | 2 227 | 212 |
| Total administered liabilities | | 3 379 | 3 320 | (59) |

Note:

(a) Entities are required to disclose a brief explanation for any major variances identified.

APPENDIX 3: AASB 10 CONSOLIDATED FINANCIAL STATEMENTS CHECKLIST – CONTROL ANALYSIS FOR VICTORIAN PUBLIC SECTOR ENTITIES

AASB 10 *Consolidated Financial Statements* focuses on 'control' in determining whether an entity needs to consolidate another entity. Under AASB 10, control is assessed on the achievement of all three criteria, i.e.

1. power over the investee;
2. exposure, or rights, to variable returns from its involvement with the investee; and
3. the ability to use its power over the investee to affect the amount of the investor's return.

The Department of Treasury and Finance (DTF) has developed a list of questions to help you determine if each of the criteria has been satisfied to meet the 'control' test.

If all three criteria are met, the 'control' test will be met and the entity will need to be consolidated.

If this assessment has resulted in you having control over any additional entities that are required to be consolidated, please advise DTF by emailing accpol@dtf.vic.gov.au. Please do not hesitate to contact DTF should you have any questions regarding this checklist.

In addition, you are strongly encouraged to liaise with the Victorian Auditor-General's Office once you have discussed your assessments of any changes with DTF to confirm year-end reporting requirements.

Entity name:**Criterion (i): Power over the investee**

Questions 1-9 are to help you assess whether you have power over the other entity. The determination depends on the relevant activities, the way decisions about the relevant activities are made and the rights you and other parties have in relation to the other entity.

1. Who is the other entity subject to the assessment for 'control'?**Note:**

The basic terms 'investor' and 'investee' in AASB 10 are explained as entities that have a relationship in which control of one entity (the investee) by the other (the investor) might arise.

2. What is the nature of the relationship with the other entity?**Note:**

When assessing control, an investor shall consider the nature of its relationship with other parties. In the public sector, the relationship between a government and entities can often be established in one of the following scenarios, which may or may not result in government controlling the other entity, depending on the specific circumstances.

Economic dependence

A statutory entity's operations could be dependent on the Government, e.g. dependence on the Government to fund a significant portion of its operations, guarantee a significant portion of its obligations, or provide critical goods or services. Nevertheless, if the governing body of the statutory entity has discretion with respect to whether it will accept resources from the Government, or the manner in which their resources are to be deployed, the Government is considered not to have the current ability to direct the relevant activities of the entity, even though it may be financially dependent on government funding.

Therefore, the economic dependence of an investee on the investor does not necessarily lead to the investor having power over the investee, in the absence of other rights.

Existence of congruent objectives

The Government would have the ability to use its power over the entity when it can direct the entity to work with the Government to further the Government's objectives. However, the existence of congruent objectives alone is insufficient for a government to conclude that it controls a statutory entity.

Delegated powers

A department with decision-making rights is required by AASB 10 to determine whether it is a principal or an agent. See Item 14 for more details regarding when a department controls over another entity through the delegated powers.

De facto agency relationship

A party is a de facto agent if the investor or those who control the investor have the ability to direct that party to act on the investor's behalf (i.e. they are 'de facto agents'). Refer to *Detailed guidance for application of AASB 10 Consolidated Financial Statements* at the end of this appendix for more details regarding an entity acts as a 'de facto agent'.

3. What is the primary objective and functions of the other entity?**Note:**

Assessing the purpose and design of the other entity will assist you in understanding what are the relevant activities taken by the other entity, and how decisions about the relevant activities are made. As the primary objective will affect the nature of the other entity's returns to be achieved, understanding the primary objective of the other entity will assist you to determine the scope of its relevant activities.

4. What are the relevant activities of the other entity that significantly affect its returns?**Note:**

The relevant activities will include a range of operating and financing activities that significantly affect an entity's returns. In that case, if your entity were able to set the strategic operating and financing policies of the other entity, you would usually have power.

However, a higher degree of judgement is particularly required for entities in the public sector when the primary objectives of the other entity could include non-financial returns. More specifically, examples of relevant activities in the public sector include, but are not limited to:

- the achievement of the other entity's objectives as set out in the specific legislation;
- raising revenue to fund its functions and activities;
- planning for and providing services and facilities; and
- strategic planning and implementation.

5. What authority (e.g. enabling legislation, statutory provisions) is in place that enables the other entity to achieve its objectives?

Entity name:**Criterion (i): Power over the investee (continued)****6. How are decisions made about these relevant activities of the other entity?****Note:**

Examples of decisions about relevant activities include but are not limited to:

- making operating and capital decisions of the other entity, including budgets; and
- appointing and remunerating the other entity's key management personnel or service providers and terminating their services or employment.

Broadly speaking, those decisions can be made on by your entity on behalf of the relevant Minister (i.e. act as an agent), or by your entity's own discretion (i.e. act as a principal). If the decisions about these relevant activities of the other entity are made at your own discretion, you would have power over the other entity.

7. Do you have current ability to direct the relevant activities of the other entity?**Note:**

For your entity to control the other entity, you must have the power to require the entity's assets to be deployed towards achieving your entity's objectives.

Therefore, the ability to deploy resources is relevant to assessing whether your entity has power over the other entity. Restrictions on the ability to deploy resources may reflect barriers that prevent you from exercising them. Examples of barriers may include operational barriers, legal or regulatory restrictions.

In addition, the economic dependence of the other entity on you alone is insufficient to determine whether you have current ability to deploy the other entity's assets. See Item 2 for more guidance on economic dependence.

8. What's the nature of rights held by you over the other entity? Are they only substantive rights, or only protective rights or both?**Note:**

For a right to be substantive and to meet the 'power' test, you must have the practical ability to exercise that right when decisions about the directions of relevant activities need to be made. Accordingly, you need to consider what are the relevant activities of the other entity, including the nature of returns to determine whether you have power.

Examples of substantive rights include rights to:

- give policy directions to the governing body of the other entity that give you the ability to direct the relevant activities of the other entity;
- approve or veto operating and capital budgets relating to the relevant activities of the other entity;
- appoint, or remove the entity's key management personnel; or
- enter into, or veto transactions that would benefit you.

Conversely, protective rights are designed to protect your interest without giving you power over the other entity, which those rights relate to. If you only have protective rights in relation to the other entity, you do not have power, or you cannot prevent another party having power over the other entity.

Examples of protective rights include:

- regulatory power that imposes conditions or sanctions on the other entity's operation in restricted circumstances (e.g. breaching of environmental regulations);
- the right of a regulator to curtail or close the operation of entities that breach regulations or other requirements;
- the right to remove or appoint members of the governing body of another entity under certain restricted circumstances (e.g. failure to comply with performance standards).

In many cases, you may have a mixed of substantive rights and protective rights. To assess power, only substantive rights should be considered. However, not all substantive rights will give rise to power, as the substantive rights need to relate to the activities that significantly affect the investee entity's returns (i.e. the relevant activities). Accordingly, you also need to consider what are the relevant activities of the investee entity, including the nature of returns when determining whether you have power.

9. Is the authority that the other entity operates under subject to any limitations through regulatory powers imposed by you or the State?**Assessment for criterion (i):**

Your entity will satisfy Criterion (i) if you have a current ability to affect the relevant activities of the other entity that significantly affect its returns.

The closer the activities directed by you relate to the other entity's primary objectives, the greater is the impact expected on the other entity's returns, and as a result, the greater involvement/power over the other entity.

Entity name:**Criterion (ii): Exposure or rights to variable returns from its involvement with the investee**

Questions 10-12 are to help you assess whether you have exposure or rights to variable returns of the other entity. Your involvement with the other entity may give rise to indirect and non-financial returns, such as when achieving or furthering the objectives of the other entity contributes to your objectives.

10. What is the nature of returns⁷ in the other entity? Are they financial/non-financial? Does it include achievement, or furtherance of your objectives?**Note:**

AASB 10 suggests that the scope of the nature of returns is broad for not-for-profit entities. It encompasses financial, non-financial, direct, and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor's objectives.

11. Do you have any exposure to the variability of returns of the other entity?**Note:**

The greater the magnitude of, and variability associated with the return, the more likely you are acting as a principal, rather than as an agent, of the other entity.

In the public sector, achievement of common objectives will be a key indicator to determine if you have exposure to the variable returns of the other entity.

In terms of the variability of returns, it should be noted that:

- variable returns are returns that are not fixed and have the potential to vary as a result of the performance of the other entity; and
- your entity's exposure to the variable returns can be positive, negative or both.

12. Are you exposed to any risks arising from the existence of the other entity?**Note:**

As the returns are variable and can be positive or negative, this could expose you to the risks of the other entity. Therefore, you should consider the risks of the other entity when evaluating the purpose of design of the entity, including any impact of those risks on you and other parties involved in the arrangement.

Assessment for criterion (ii):

When assessing 'returns', AASB 10 intends to keep the scope of returns to be broad in the context of the not-for-profit (NFP) entities. Your entity will satisfy criterion (ii) if you have exposure, or rights to variable returns of the other entity, which could be both financial and non-financial in nature.

Criterion (iii): The ability to use its power over the investee to affect the amount of the investor's returns – questions 13 and 14 are to assist you in examining whether you can use the power over the other entity to affect the returns.**13. What is the scope of decision-making authority held by yourself to affect your returns?****Note:**

The scope of the decision-making authority will determine whether criterion (iii) is met or not. A restricted decision-making authority could mean you are only acting as an agent and therefore does not control over the other entity.

14. Is the authority a mere delegated power to act on behalf of the responsible Minister? Or do you have discretion of the authority and the direction of which is not specified by the relevant Minister?**Note:**

From the department's perspective, a department acts as an agent of the responsible Minister in relation to the investee entity when the department is merely authorised by the Minister to act on the Minister's behalf. For example, a department may act as a 'system manager' for the State health service systems. Its role includes providing strategic leadership, directions to the hospitals for the delivery of health services, or monitoring the hospitals' performance. However, ministerial approval is specifically required for the hospitals' operational or budgetary activities. In this case, the department acts only as an agent on behalf of the Minister, who controls the hospitals. Therefore, the hospitals will be consolidated into the State's financial reports.

Alternatively, a department may act as a principal under a delegation of powers from the Minister if it is able to exercise its own discretion, and is not subject to specific directions by the Minister. In the previous example, if the department head has been delegated by the Minister to make specific decisions in relation to the operating and investing activities of the hospitals, e.g. appointment of the governing bodies of the hospitals, approval or veto service agreements, this indicates that the department is acting on its own discretion, and may have control if other criteria are also met.

⁷ From the perspective of a NFP entity, the scope of the nature of returns is broad and encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor's objectives. For more detailed guidance on the 'control' criteria, please refer to Detailed guidance for application of AASB 10 Consolidated Financial Statements at the end of this appendix.

| | Analysis and supporting documentation |
|---|---------------------------------------|
| Entity name: Criterion (iii): The ability to use its power over the investee to affect the amount of the investor's returns – questions 13 and 14 are to assist you in examining whether you can use the power over the other entity to affect the returns. <i>(continued)</i> | |
| Assessment for criterion (iii) Your entity will satisfy criterion (iii) if the scope of your decision-making authority is wide enough to provide you with sufficient discretion to direct the activities of the other entity. | |

Detailed guidance for application of AASB 10 Consolidated Financial Statements

AASB 10 focuses on 'control' in determining whether an entity needs to consolidate another entity. Under AASB 10.7 control is assessed on the following three criteria:

1. power over the investee;
2. exposure, or rights, to variable returns from its involvement with the investee; and
3. the ability to use its power over the investee to affect the amount of the investor's returns.

Please note that these elements in isolation do not necessarily result in control as they would need to be assessed at an overall level and tested against the facts and circumstances specific to the entity.

References below are to the compiled version of AASB 10 as available on the AASB's website.

Detailed guidance in relation to the 'control' criteria

(i) Power over the investee

| | |
|----------------------|---|
| AASB 10.8 and B80-84 | The assessment of control should be performed on a continuous basis and the investor entity shall reassess whether it controls the investee entity if the facts and circumstances indicate that there are changes to one or more elements of control. |
| AASB 10.10 | The investor has power over the investee when it has existing rights with the current ability to direct the relevant activities of the investee, which significantly affect the investee's returns. [Note the investor does not need to actively direct the investee's activities as long as there are no barriers preventing the exercise of its rights.] |
| AASB10.IG5 | The investor has power over the investee when the investor can direct the investee to deploy its assets or incur liabilities in a way that affects the investee's returns (e.g. in providing goods/services to the investor, or assist in achieving or furthering the investor's objectives). |
| AASB 10.B5 | The investor shall consider the purpose and design of the investee in order to identify the relevant activities, how relevant decisions are made, who has the current ability to direct those activities, and who receives returns from those activities. |
| AASB 10.IG6 | For not-for-profit (NFP) entities, rights arising from administrative arrangements or statutory provisions will often be the source of power. |
| AASB 10.IG7 | For example, an enabling legislation for the investee may specify the investor's rights to direct the operating and financing activities that may be carried out by the investee. Therefore, the legislation will give rise power to the investor over the investee through rights specified in it. However, the impact of the constituting document or legislation should be evaluated in the context of the prevailing circumstances. For example, the enabling legislation may not specify the investor's rights to direct the relevant activities of the investee, or the rights are actually held by other entities that are not controlled by the Government, even though the investee operates under a mandate created, and limited, by the Government's legislation. In this case, the investor would not have power over the investee. |
| AASB 10.IG9 | Power arises from rights. In relation to NFP investors, rights include: <ul style="list-style-type: none"> • rights to give policy directions to the governing body of the investee that give the holder the ability to direct the relevant activities of the investee; and • rights to approve or veto operating and capital budgets relating to the relevant activities of the investee. |
| AASB 10.IG10 | A NFP investor can have power over the investee even if it does not have responsibility for the day-to-day operation of the investee or the specific manner in which prescribed functions are performed by the investee. If the Government provides resources (not limited to grants) that assist the investee in fulfilling its responsibilities, the resources of the investee remain government resources, albeit they are placed at the disposal of the investee. |
| AASB 10.IG 11-12 | A NFP investor can have more than a passive interest in an investee. For example, an investee's operations are dependent on the investor. However, the existence of economic dependence alone may not lead to the investor entity having power over the investee. For instance, a government may not have the current ability to direct the relevant activities of entities (such as private schools, private hospitals, private aged-care providers and universities) that are financially dependent on government funding, where the governing bodies of those entities have discretion with respect to whether they will accept resources from the Government, or the manner in which their resources are to be deployed. This may be so even if government grants provided to such entities require them to comply with specified conditions. Although these entities might receive government grants for capital construction and operating costs subject to specified service standards or restrictions on user fees, their independent governing body may have ultimate discretion about how assets are deployed. |
| AASB 10. B22 | Only substantive rights held by the investor and others are considered when determining whether the rights give rise to power. To be substantive, rights need to be exercisable when decisions about the relevant activities need to be made, and their holder needs to have a practical ability to exercise those rights. |

| (i) Power over the investee (continued) | |
|--|--|
| AASB 10.IG13-14 | <p>While AASB10.B24 states that for rights to be substantive, they must be currently exercisable, they note that sometimes rights can be substantive even when they are not currently exercisable.</p> <p>The standard states that rights can be substantive even if not currently exercisable due to timing delays for the rights to become effective. For the NFP investor, rights specified in substantively enacted legislation would be substantive rights that need to be considered in assessing control if it is assessed that the rights will be exercisable when decisions about the direction of the relevant activities need to be made.</p> |
| AASB 10.IG14 | <p>However, the power to enact or change legislation does not necessarily give the investor the current ability to direct relevant activities of the investee.</p> |
| AASB 10.B26-B28 | <p>Depending on the circumstances, statutory arrangements may be in the nature of protective rights rather than substantive rights.</p> |
| AASB 10.IG16 | <p>Protective rights are related to fundamental changes in the activities of the other entity or rights that apply only in exceptional circumstances, and does not give the holder the power or prevent others from having power and therefore control the other entity.</p> <p>For NFP entities, protective rights includes rights held by a government or other entity in order to protect (rather than enhance) the interests of the Government, the beneficiaries of an entity or the public at large. The regulatory powers may be exercisable through a framework within which entities operate, including the ability to impose conditions or sanctions on their operations.</p> <p>As a result, these regulatory powers may represent protective rights, which do not give power over the other entity.</p> <p>However, these may be substantive rights if they have the effect of giving the regulator the ability to direct the relevant activities of the other entity in particular circumstances.</p> |
| AASB 10.IG17 | <p>Examples of protective rights in relation to NFP entities include, but are not limited to:</p> <ul style="list-style-type: none"> • regulatory power that imposes conditions or sanctions on the other entity's operation in restricted circumstances (e.g. breaching of environmental regulations); • the right of a regulator to curtail or close the operation of entities that breach regulations or other requirements; or • the right to remove or appoint members of the governing body of another entity under certain restricted circumstances (e.g. failure to comply with performance standards). |
| AASB 10.B34-B39 | <p>The investor can have power over the investee when the relevant activities are directed through voting rights:</p> <ul style="list-style-type: none"> • where the investor holds a majority of the voting rights and these rights are substantive; or • the investor holds less than half the voting rights but has an agreement with the other vote holders. |
| AASB 10.B40-B50 | <p>The investor can have power over the investee when the relevant activities are directed through voting rights:</p> <ul style="list-style-type: none"> • where the investor holds rights arising from other contractual arrangements; • holds substantive potential voting rights; • holds rights sufficient to unilaterally direct the relevant activities of the investee (de facto power); or • holds a combination of thereof. |
| (ii) Exposure, or rights, to variable returns from its involvement with the investee | |
| AASB 10.15 and B20 | <p>Criterion (ii) of control requires an entity to assess whether it is exposed, or has rights, to variable returns from its involvement with the investee to assess control.</p> |
| AASB 10.IG 18 | <p>For NFP entities, the broad scope of the nature of returns encompasses financial, non-financial, direct, and indirect benefits, whether positive or negative, including the achievement, or furtherance of the investor's objectives.</p> |
| AASB 10.IG 19 | <p>Note that these may include the efficiency and effectiveness of delivery of the goods and services and changes in outcomes for the beneficiaries.</p> <p>It should be noted that the existence on congruent objectives alone is not sufficient for a NFP to conclude it controls the other entity.</p> |
| (iii) The ability to use its power over the investee to affect the amount of the investor's returns | |
| AASB 10.17 | <p>This criterion of control requires the investor not only to have the power over the investee and exposure or rights to variable returns from its involvement, but also the ability to use its power to affect the investor's return from its involvement.</p> |
| AASB 10.B58 | <p>The concept of delegated power is introduced in AASB 10.</p> <p>The decision maker needs to assess whether it is acting as a principal or agent on behalf of others when directing the activities of the investee.</p> <p>If it has the power to direct the activities of the entity it manages to generate returns for itself, it is a principal and controls the investee.</p> |

(iii) The ability to use its power over the investee to affect the amount of the investor's returns (continued)

AASB 10.B75

When assessing control, the investor should also consider the nature of its relationships with other parties and whether the other parties act on the investor's behalf.

A party is a de facto agent if the investor or those who control the investor have the ability to direct that party to act on the investor's behalf (i.e. they are 'de facto agents').

Examples of such other parties that, by the nature of their relationship, might act as de facto agents for the investor:

- the investor's related parties;
- a party that received its interest in the investee as a contribution or loan from the investor;
- a party that has agreed not to sell, transfer or encumber its interests in the investee without the investor's prior approval (except for situations in which the investor and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties);
- a party that cannot finance its operations without subordinated financial support from the investor;
- an investee for which the majority of the members of its governing body or for which its key management personnel are the same as those of the investor; and
- a party that has a close business relationship with the investor, such as the relationship between a professional service provider and one of its significant clients.

APPENDIX 4: INTERESTS IN SUBSIDIARY AND UNCONSOLIDATED STRUCTURED ENTITIES

Disclosure for interests in subsidiaries [AASB 12.10]

An entity shall disclose information that enables users of its consolidated financial statements:

- (a) to understand:
 - the composition of the group; and
 - the interest that non-controlling interests have in the group's activities and cash flows;
- (b) to evaluate:
 - the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
 - the nature of, and changes in, the risks associated with its interests in consolidated structured entities;
 - the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and
 - the consequences of losing control of a subsidiary during the reporting period.

The interest that non-controlling interests have in the group's activities and cash flows

An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

- (a) the name of the subsidiary;
- (b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary;
- (c) the proportion of ownership interests held by non-controlling interests;
- (d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held;
- (e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period;
- (f) accumulated non-controlling interests of the subsidiary at the end of the reporting period; and
- (g) summarised financial information about the subsidiary.

The nature and extent of significant restrictions [AASB 12.13]

An entity shall disclose:

- (a) significant restrictions (e.g. statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group) such as:
 - those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group;
 - guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group;
- (b) the nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary); and
- (c) the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

Nature of the risks associated with an entity's interests in consolidated structured entities

[AASB 12.14 and 12.15]

An entity shall disclose the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a consolidated structured entity (e.g. purchasing assets of or instruments issued by the structured entity), the entity shall disclose:

- (a) the type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support; and
- (b) the reasons for providing the support.

If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision. [AASB 12.16]

An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support. [AASB 12.17]

Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control [AASB 12.18]

An entity shall present a schedule that shows the effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary that do not result in a loss of control.

Consequences of losing control of a subsidiary during the reporting period [AASB 12.19]

An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 25 of AASB 10, and:

- (a) the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; and
- (b) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

Disclosure for interests in unconsolidated structured entities [AASB 12.B21]

Definition of structured entity [AASB 12.IG7 & 12.IG9]

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Applying the principle underlying the definition of a structured entity means that structured entities have been designed so that less conventional means – in the context of not-for-profit entities – are the dominant factor in determining who controls the entity. This approach limits, for not-for-profit entities, the scope of structured entities to entities that have been designed so that voting or similar rights, including administrative arrangements or statutory provisions, are not the dominant factor in determining control of the entity.

Not-for-profit private sector entities will also need to identify any structured entities with which they are associated. For example, a not-for-profit private sector entity may have established or sponsored a community service organisation whose relevant activities are directed by means of contractual arrangements. Those arrangements might require the not-for-profit private sector entity to provide financial support in specified circumstances to the community service organisation, or alternatively the entity might choose to provide financial or other support to the organisation without the contractual obligation to do so (e.g. due to the economic dependency of the organisation upon the entity). The AASB 12 disclosure requirements would be relevant in both circumstances as the community service organisation is a structured entity.

Features of structured entities [AASB 12.B22]

A structured entity often has some or all of the following features or attributes:

- (a) restricted activities;
- (b) a narrow and well-defined objective, such as to effect a tax efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Examples of entities that are regarded as structured entities include, but are not limited to:

- (a) securitisation vehicles;
- (b) asset backed financings; and
- (c) some investment funds.

Nature of interests [AASB 12.B23]

An entity shall disclose qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.

APPENDIX 4

If an entity has sponsored an unconsolidated structured entity but does not have an interest in the entity at the reporting date, the entity shall disclose:

- (a) how it has determined which structured entities it has sponsored;
- (b) income from those structured entities during the reporting period, including a description of the types of income presented; and
- (c) the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.

Nature of risks [AASB 12.26, 12.27 and 12.29]

An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:

- (a) the carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities;
- (b) the line items in the statement of financial position in which those assets and liabilities are recognised;
- (c) the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons; and
- (d) a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.

APPENDIX 5: ANNUAL LEAVE PROVISIONS

AASB 119 Employee Benefits

Definitions [AASB 119.8]

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service.

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Revised requirements

Under revised AASB 119, the classification of short-term employee benefits centres around the question as to whether the employee benefits are expected to be wholly settled within 12 months.

In other words, if the employee benefits are not expected to be wholly settled within 12 months and this is a permanent expectation, the employee benefits should be classified as long-term employee benefits and should be measured at a discounted value similar to other long-term employee benefits.

However, an entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of employee benefit settlement change temporarily. In such cases, entities can continue to measure the employee benefits at nominal value.

Example assumptions

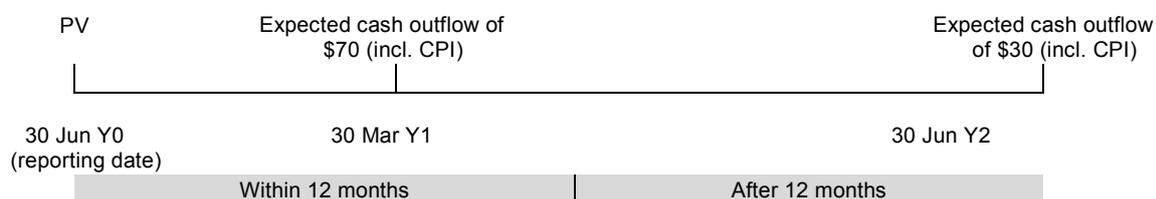
- At 30 June Year 0 (i.e. the reporting date), the balance of outstanding annual leave entitlements are expected to be \$100 (nominal value including wage inflation).
- Based on historical trends, 70 per cent of the entitlements are expected to be taken during Year 1, with the remaining 30 per cent taken by the end of Year 2.
- Cash settlements are made as expected.
- Discount rate = 5 per cent.
- Expected cash outflows are discounted on annual basis.

Questions

Do the annual leave provisions in this example qualify as short-term employee benefits?

No. The classification of 'short-term employee benefits' is based on the 'whole of the benefit' level. If a portion of the benefit is expected to be settled longer than 12 months after the end of the annual reporting period, then the whole of the benefit will be classified as a long-term employee benefit. In this example, since 30 per cent of the entitlements are expected to be taken after 12 months, the whole balance of annual leave entitlements will be classified as 'long-term employee benefits' and calculated on discounted value.

How should the annual leave provisions be calculated?



Calculation guidance

1. Entities need to estimate the expected cash outflows to settle the outstanding annual leave entitlements, taking into account the wage inflation rate as published by DTF for long service leave (LSL).
2. At the reporting date (Y0), the present value of annual leave provisions is the sum of the discounted value of expected cash outflows (note: discount rate used should be consistent with the LSL discount rate issued by DTF).
3. Discounted annual leave provision for the 12 months ended 30 June Y0.

APPENDIX 5

| | <i>Expected cash outflow (including wage inflation)</i> | <i>Discounted value</i> |
|--------------|---|--------------------------|
| Y1 | \$70 | \$70 ^(a) |
| Y2 | \$30 | \$27 ^(b) |
| Total | \$100 ^(c) | 97 ^(d) |

Notes:

(a) Theoretically, this discounted value should be different from the expected cash outflows if it is discounted on a monthly or quarterly basis. However, because of the discounting methodology used (i.e. annual basis as with LSL calculation), expected cash outflows within 12 months will be the same as the nominal value.

(b) $30/(1+5\%)^2 = 27$ (rounded).

(c) Annual leave provisions that meet the old definition of 'short-term employee benefit' will usually be measured at nominal value.

(d) Since the annual leave provisions do not meet the new definition of 'short-term employee benefits', the whole benefit should be measured at present value (using the same LSL calculation methodology).

Journal entries

(\$)

| | <i>DR</i> | <i>CR</i> |
|---|---------------------|-----------|
| 30 June Y0 | | |
| AL expenses | 97 | |
| Provisions for AL | | 97 |
| Initial recognition for AL provisions | | |
| 30 March Y1 | | |
| Provisions for AL | 70 | |
| Cash | | 70 |
| Cash settlement of annual leave provision | | |
| 30 June Y1 | | |
| Interest expense – Unwinding of provision (transaction) | 1.35 ^(a) | |
| Provision for AL | | 1.35 |
| Unwinding of provision at end of Y1 | | |
| 30 June Y2 | | |
| Interest expense – Unwinding of provision (transaction) | 1.42 ^(b) | |
| Provision for AL | | 1.42 |
| Unwinding of provision at end of Y2 | | |
| Provision for AL | 30 | |
| Cash | | 30 |
| Cash settlement of annual leave provision (assume at 30 Mar Y1) | | |

Notes:

(a) $27 \times 5\% = 1.35$.

(b) $27 \times 5\% \times 5\% = 1.42$.

Disclosure illustration

Provisions for annual leave as at 30 June Y0 (i.e. current reporting period)

(\$)

| <i>Current provisions</i> | <i>Old measurement</i> | <i>New measurement</i> |
|---|----------------------------|----------------------------|
| Employee benefits – annual leave: | | |
| • Unconditional and expected to be settled within 12 months | 70 | 70 |
| • Unconditional and expected to be settled after 12 months | 30 | 27 |
| Total | 100 | 97 |

APPENDIX 6: FAIR VALUE MEASUREMENT INDICATIVE EXPECTATIONS

| <i>Asset class</i> | <i>Examples of types of assets</i> | <i>Expected fair value level</i> | <i>Likely valuation approach</i> | <i>Significant inputs (Level 3 only)(c)</i> |
|--|--|--|--|--|
| Non-specialised land | In areas where there is an active market – <ul style="list-style-type: none"> • Vacant land • Land not subject to restrictions as to use or sale | Level 2 | Market approach | n.a. |
| Specialised Land | <ul style="list-style-type: none"> • Land subject to restriction as to use and/or sale • Land in areas where there is not an active market | Level 3 | Market approach | CSO adjustments |
| Non-specialised buildings | For general/commercial buildings that are just built | Level 2 | Market approach | n.a. |
| Specialised buildings ^(a) | Specialised buildings with limited alternative uses and/or substantial customisation e.g. prisons, hospitals and schools | Level 3 | Current replacement cost approach | <ul style="list-style-type: none"> • Cost per square metre • Useful life |
| Heritage assets | <ul style="list-style-type: none"> • Shrine of Remembrance • Governor's House | Level 3 | Current replacement cost approach ^(b) | <ul style="list-style-type: none"> • Cost per square metre • Useful life |
| Dwellings ^(a) | Social/public housing, employee housing | Level 2, where there is an active market in the area Level 3, where there is no active market in the area | Market approach Current replacement cost approach | n.a. <ul style="list-style-type: none"> • Cost per square metre • Useful life |
| Vehicles | If there is an active resale market available If there is no active resale market available | Level 2 Level 3 | Market approach Current replacement cost approach | n.a. <ul style="list-style-type: none"> • Cost per unit • Useful life |
| Plant and equipment ^(a) | Specialised items with limited alternative uses and/or substantial customisation | Level 3 | Current replacement cost approach | <ul style="list-style-type: none"> • Cost per square metre • Useful life |
| Infrastructure | Water infrastructures (Metro) <ul style="list-style-type: none"> • Water infrastructure (Regional) <ul style="list-style-type: none"> • Rail infrastructure • Others | Level 3 Level 3 | Income approach Current replacement cost approach | <ul style="list-style-type: none"> • Estimated cash flow per year • Discount rate Cost per unit Useful life |
| Road, infrastructure and earthworks ^(a) | Any type | Level 3 | Current replacement cost approach | <ul style="list-style-type: none"> • Cost per metre • Useful life |
| Cultural assets | Artworks, for which there is an active market for the item | Level 2 | Market approach | n.a. |
| Cultural assets ^(b) | Museum/library collections, for which there is no active market for the item | Level 3 | Current replacement cost approach | <ul style="list-style-type: none"> • Cost per unit • Useful life |

Notes:

(a) Newly built/acquired assets could be categorised as Level 2 assets as depreciation would not be a significant unobservable input (based on the 10 per cent materiality threshold).

(b) For heritage and iconic assets, cost may be the reproduction cost of the asset rather than the replacement cost as their service potential could only be replaced by reproducing them with the same materials.

(c) AASB 13 Fair Value Measurement provides an exemption for not-for-profit public sector entities from disclosing the sensitivity analysis relating to 'unrealised gains/(losses) on non-financial assets' if the assets are held primarily for their current service potential rather than to generate net cash inflows.

APPENDIX 7: PRACTICAL CLASSIFICATION GUIDE BETWEEN TRANSACTIONS AND OTHER ECONOMIC FLOWS

Transactions (T) generally arise when there is mutual agreement between counterparties. They represent changes to assets/liabilities that result directly from economic activities such as production (including cultivated assets e.g. breeding stock and plantations) or consumption.

Other economic flows (OEF) are either holding gains/(losses) from revaluations of assets/liabilities due to market changes, or changes in volume due to non-economic phenomena such as: entrance or exit from the balance sheet as a result of normal events other than transactions e.g. discoveries of mineral deposits; birth/demise of breeding stock; assets created by human activity not previously recognised; and destruction by catastrophe.

For operating statement presentation purposes, other economic flows are disaggregated into 'other economic flows included in net result' and 'other economic flows – other comprehensive income (OCI)'.

| | <i>Item</i> | <i>Transaction</i> | <i>OEF included in net result</i> | <i>OEF – OCI</i> | <i>Reason for the classification</i> |
|----|--|--------------------|-----------------------------------|------------------|---|
| 1 | Taxation | ✓ | | | Agreed between counterparties i.e. implicit agreement between government and taxpayers. |
| 2 | Bad debts | ✓ | ✓ | | Either: - If agreed between counterparties = transaction. - If unilateral write off = other economic flows included in net result. |
| 3 | Dividends | ✓ | | | Agreed between counterparties i.e. owner and business. |
| 4 | Net profit or loss from associates (other than dividends) | | ✓ | | Revaluation of investment. |
| 5 | Depreciation | ✓ | | | Agreed between internal counterparties i.e. the business is simultaneously acting as the owner and consumer of the service provided by the asset. |
| 6 | Provision for doubtful debts | | ✓ | | Treated as a unilateral decision to provision adjustment and affect net result. |
| 7 | Long service leave provision: - Change in provision due to changes in the bond rates | | ✓ | | The movements in the long service leave provision associated with a change in the bond rates will be reflected in other economic flows included in net result. |
| | - Change in provision due to changed estimation. | | ✓ | | The movements in the long service leave provision associated with a change in the estimates applied will be reflected in other economic flows included in net result. |
| 8 | Whole of government unfunded superannuation liability: - Net interest expense | ✓ | | | |
| | - Remeasurement | | | ✓ | Revaluation: (1) difference between expected return on assets and actual return; (2) change to gross obligation due to bond rate change. |
| 9 | Gain/Loss on financial instruments/ non-financial assets | | ✓ | | Revaluation. |
| 10 | Depletion of natural assets by removal or physical use e.g. forest; destruction by catastrophe e.g. fire | | ✓ | | Change in volume. |
| 11 | Gain from natural increase in livestock due to births | | ✓ | | Change in volume. |

APPENDIX 8: DECLARATION CERTIFICATE FOR EXECUTIVES – THE CERTIFICATE FOR DECLARATION OF RELATED PARTY TRANSACTIONS IN COMPLIANCE WITH AASB124

Background information

Related party transactions between key management personnel (KMP) and departments and agencies

The Australian Accounting Standards Board (AASB) extended the scope of AASB 124 *Related Party Disclosures* to include not-for-profit (NFP) public sector entities from 1 July 2016. It should be noted that the objective of AASB 124 is to ensure that the department's or entity's financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

The standard defines KMP as those people with the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly i.e. those charged with decision making responsibilities. AASB 124(9) *Related Party Disclosures* defines a person who has significant influence or a close member of that person's family to be related to a reporting entity if that person is a member of the KMP of the entity or a parent of the entity.

What needs to be collected from the KMP?

Information regarding all related party transactions will need to be collected by the KMP, except for those transactions where the KMP and their related parties are acting as public citizens (e.g. payment of tax, or accessing a community service available to all citizens like services from a public hospital).

We acknowledge that while KMP such as executive officers are currently required to declare their private interests, AASB 124 requires more extensive disclosures of related party transactions that are not collected in the declaration of private interests form.

How the information collected will be disclosed in the relevant financial reports

Not all information collected will be disclosed in the respective entity's annual financial report. This is because the accounting standards only require the disclosure of material related party transactions and outstanding balances. Materiality is subject to professional judgement and goes beyond the dollar value of the transaction or balance.

However, it is important to note that all KMP should disclose all relevant related party transactions, noting that typical citizen transactions are not required to be declared. A threshold of \$100 000 may be applied for standard commercial contracts in an effort to ease the reporting burden on KMP. This is because a transaction that may appear immaterial on its own, may in combination with other like transactions have a material effect on the entity's financial statements and warrants disclosure. Items of a similar nature may be **disclosed in aggregate** except where separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the department or entity. If you are unsure whether there are any related party transactions your close family members have with the entity that you are a KMP of, or with any entity controlled by the entity that you are a KMP of, you are encouraged to include their details in the certificate for completeness.

Due to the sensitive nature of the information, all information collected will be stored in a secured manner.

Certification completion process

Process for Ministers

As not all not-for-profit public sector entities within the State has 30 June year ends i.e. TAFES and schools have 31 December year ends, the State has to collect information from Cabinet ministers more frequently.

The first submission will cover the period 1 July to 31 December. All Cabinet ministers will be expected to complete and submit their certificates in the month following the first submission period (i.e. January).

Cabinet ministers will submit their certificates to the Department of Premier and Cabinet (DPC) via a secure Cabinet portal.

The final submission will cover the remaining period 1 January to 30 June to report on any additional transactions that may have occurred during the quarter. The previous certificate will be included to facilitate completion of their final submission for the financial year. All Cabinet ministers will be expected to complete and submit their certificates in the month following the second submission period (i.e. July).

APPENDIX 8

The information collected will enable DPC and DTF and the respective departments and agencies to review the information received from Cabinet ministers to support the drafting of the related party disclosures for inclusion in the relevant departments' and agencies' related party note. The Department of Treasury and Finance (DTF) team will provide an overview and support role in facilitating the completion of the related party disclosures and ensuring consistency across the board.

Process for executive KMP

Entities are encouraged to adopt a collection frequency that is appropriate for their needs, and may consider the process designed for Ministers as a guide.

All executive KMP will return their certificates to their respective department or agency who will coordinate the collection of the certificates.

Declaration Checklist for executives—Related party transaction identification

| | | |
|---|--|---|
| Name of executive | | |
| Portfolio and entity name | | |
| Period covered | <input type="checkbox"/> First submission 1 July – 31 December Due: January | <input type="checkbox"/> Second submission 1 January – 30 June Due: July |
| Or alternative reporting period: | <i>(please state the alternative reporting period covered)</i> | |

Did you, your close family members⁸ or entities controlled⁹ or jointly controlled by you or a close family member have any related party transactions with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of, during the year ended 30 June 201X? **Please declare all related party transactions, noting that typical citizen transactions¹⁰ are not required to be declared.** (Please refer to the definitions and guidance on page 291 for further details).

In using this checklist, if you answer 'yes' to any of the following questions, then those transactions must be declared. The objective of the checklist is to assist you with identifying related party transactions that need to be declared in the following declaration form. Questions 1 to 9 are designed to broaden your consideration of transactions that are non-standard transactions or agreements, and Question 10 requires declaration of standard commercial transactions to which a **threshold of \$100 000 (excl. GST)** may be applied in an effort to ease the reporting burden on KMPs.

If in doubt, you are encouraged to declare the transaction, as your reporting entity will assist in determining whether disclosure of the transaction is required, to minimise the risk of potential omissions of transactions that should be declared.

It should be noted that during the normal course of VAGO audits and entity management due diligence, related party transactions below \$100 000 may be identified which may warrant disclosure in an entity's financial report, as materiality must be assessed on an entity-by-entity basis. Should such transactions be identified, any information relating to executives and their related parties that are proposed to be disclosed by entities in their financial reports will be submitted to the relevant executive for review and approval prior to finalisation of the relevant entity's related party disclosure.

⁸ Refer to item 1 of the Definition and Guidance section on page 291.

⁹ Refer to item 2 of the Definition and Guidance section on page 292.

¹⁰ Refer to item 3 of the Definition and Guidance section on page 292.

| Question | Please tick your response below | | Instructions |
|--|---------------------------------|--------------------------|--|
| | Yes | No | |
| <p>1. Are you, or any of your close family members employed in a senior position by any Victorian Government entity in the current declaration period?</p> <p>A senior position is a position that has decision making responsibility of a KMP of an entity.</p> | <input type="checkbox"/> | <input type="checkbox"/> | <p>If you have answered yes, please provide:</p> <ul style="list-style-type: none"> • details of your position and the department or agency you are employed by; • details of your close family member, their position and the department or agency they are employed by and any involvement that you may have had in their appointment (if applicable); and • details of any transactions influenced by the existence of the relationships between the entities that you are KMP of and/or the entity that your close family member is employed by. Please provide details of the transaction in the form provided (e.g. nature of transaction, amount, terms and conditions of transaction, etc.). |
| <p>2. Have you, your close family members, or entities controlled or jointly controlled by you or your close family members had a transaction that was a non-standard contract or agreement with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of?</p> | <input type="checkbox"/> | <input type="checkbox"/> | <p>If you have answered yes, please provide details of the transaction in the form attached.</p> <p>A non-standard contract or agreement has terms that have been varied or negotiated on more favourable terms than generally contracted at arms-length with other suppliers.</p> |
| <p>3. Have you, your close family members, or entities controlled or jointly controlled by you or your close family members received or provided any transfers under finance arrangement i.e. loans, equity contributions to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of?</p> | <input type="checkbox"/> | <input type="checkbox"/> | <p>If you have answered yes, please provide details of the transaction in the form attached.</p> |
| <p>4. Have you, your close family members, or entities controlled or jointly controlled by you or your close family members had any debts forgiven or partially forgiven¹¹ by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of?</p> | <input type="checkbox"/> | <input type="checkbox"/> | <p>If you have answered yes, please provide details of the transaction in the form attached.</p> |
| <p>5. Have you, your close family members, or entities controlled or jointly controlled by you or your close family members received any collateral, indemnity or guarantee¹² or given any collateral, indemnity or guarantee to the entity that you are a KMP of, or any entity controlled by the entity that you are KMP of?</p> | <input type="checkbox"/> | <input type="checkbox"/> | <p>If you have answered yes, please provide details of the transaction in the form attached.</p> |
| <p>6. Have you, your close family members, or entities controlled or jointly controlled by you or your close family members settled a liability on behalf of the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of?</p> | <input type="checkbox"/> | <input type="checkbox"/> | <p>If you have answered yes, please provide details of the transaction in the form attached.</p> |

¹¹ Refer to item 7 of the Definition and Guidance section on page 293.

¹² Refer to item 8 of the Definition and Guidance section on page 293.

| Question | Please tick your response below | | Instructions |
|--|---------------------------------|--------------------------|---|
| | Yes | No | |
| Has the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of, settled a liability on behalf of you, your close family members or entities controlled or jointly controlled by you and your close family members? | | | |
| 7. Have you, your close family members, or entities controlled or jointly controlled by you or your close family members received or given any ex gratia payments or received grants or subsidies greater than \$5 000 (individually) to/from the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of? | <input type="checkbox"/> | <input type="checkbox"/> | If you have answered yes, please provide details of the transaction in the form attached. |
| 8. Have you, your close family members, or entities controlled or jointly controlled by you or your close family members received/obtained the right to receive interest/dividend income from, or paid/recognised the obligation to pay interest expense/dividends to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of? | <input type="checkbox"/> | <input type="checkbox"/> | If you have answered yes, please provide details of the transaction in the form attached. |
| 9. Have you, your close family members, or entities controlled or jointly controlled by you or your close family members committed to a transaction contingent upon whether an event occurs or does not occur in the future, with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of? | <input type="checkbox"/> | <input type="checkbox"/> | If you have answered yes, please provide details of the transaction in the form attached. |
| 10. Have you, your close family members, or entities controlled or jointly controlled by you or your close family members leased assets with annual rent , provided or purchased goods or services ¹³ , or assets ¹⁴ (including intangible assets), to/from the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of? | <input type="checkbox"/> | <input type="checkbox"/> | If you have answered yes, please provide details of the transaction in the form attached. For transactions on standard terms and conditions, a \$100 000 threshold may be applied for the declaration of these transactions; otherwise they should be declared regardless of the financial quantum of the transaction. |

Please also include any **outstanding balances as of 30 June 201X** that have been carried forward from related party transactions incurred from previous years.

¹³ Refer to item 4 of the Definition and Guidance section on 292.

¹⁴ Refer to item 5 and 6 of the Definition and Guidance section on page 293.

Form to be completed – Example of details of related party transactions

| | |
|--|---------------------------------|
| Name of KMP | Jane Smith, Secretary |
| Portfolio and name of department/agency | Department of Technology |
| Period covered by this Declaration | 1 July 201X to 31 December 201X |

Please include all transactions. Note that a threshold may be applied for standard commercial related party contracts.
(Please refer to the [Declaration Checklist on page 280](#) for further guidance)

| Nature of transaction (select from Selection List I on page 289) | Name of entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of | Nature of relationship between the counterparty and KMP (select from Selection List II on page 289) | Name of counterparty | Details of transaction | Total value of transactions incurred during the period covered by this declaration (GST included) | Outstanding balances as at the end of the declaration period | Committed amount as at the end of the declaration period to be incurred in the following years | Terms and conditions (select from Selection Lists III and IV on pages 289-290) |
|---|---|--|--|---|--|---|---|---|
| AASB124(24) | (refer to Appendix 3) | AASB124(19) | (Please include ABN details) | (please specify the nature of the transaction) | AASB124(18)(a) | AASB124(18)(b) | AASB124 (18)(b) | AASB124 (18)(b) |
| Example 7A | Department of Technology (DoT) (the entity that you are KMP of) | A company wholly owned by my son provided consultancy services to DoT | Spencer & Jeffrey Consultancy Company Pty Ltd (ABN:12 345 345 345) | Provision of IT consultancy service to the department | \$300 000 | \$50 000 prepayment by DoT to the entity | IT consultancy service of \$50 000 will be provided to the department in the following year. | <ul style="list-style-type: none"> • Open tender • Unsecured • Standard terms • Settlement by bank transfer |
| Example 7A | Department of Technology (DoT) (the entity that you are KMP of) | A company owned by my husband and myself provided technology support for DoT. | Golden Age Technology Company Pty Ltd (ABN:13 567 567 567) | Sale of software licences to the department | \$570 000 | \$10 000 payable by DoT to the entity | The contract was renewed for a further year for \$570 000 | <ul style="list-style-type: none"> • Unsolicited proposal • Unsecured • Standard terms except that the unit price is 10% off the standard price as an incentive to win a new customer • Settlement by bank transfer |

Privacy Notice

This form asks for information about related party transactions between yourself, your family members or entities under your control with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. The main purpose for collecting this information is to help users of financial statements understand the impacts of any related party transactions on an entity's financial position and performance.

The information is being collected pursuant to the *Australian Accounting Standard AASB 124 – Related Party Disclosures* and section 4.2 of the *Standing Directions of the Minister for Finance*. Departments/portfolio agencies are required to comply with these requirements when preparing their annual financial statements. The information collected will form the basis of an entity's disclosures in relation to related party transactions.

The State of Victoria collects information in accordance with the *Privacy and Data Protection Act 2014*. All staff within the relevant department/portfolio agency will be required by law to protect the information you provide on this form. **Any information collected that discloses a related party transaction will be collated to form part of the relevant department's/portfolio agency's financial statements, which will be tabled in Parliament. This means that personal information will be disclosed by the relevant department/portfolio agency when required.**

In most circumstances you can access and correct the information you provide on this form by contacting the Privacy Officer within the relevant department/portfolio agency. If the relevant department/portfolio agency receives personal information about a third party, such as a close family member, then **that relevant department/agency** will take reasonable steps to ensure that the close family member is aware of their rights as described in the *Privacy and Data Protection Act 2014*, through the provision of the Privacy Fact Sheet, as provided by the KMP to their related party.

- (Please tick to confirm acknowledgement and consent of family members and other related parties)* I also acknowledge that I have obtained consent from any family member or other related party to the disclosure of any personal information with regard to the transactions that have been reported by me in the certificate and have provided them with information outlined in the Privacy Fact Sheet (attached).

KMP signoff and declaration

I have made inquiries of my close family members and to the best of my knowledge the information provided in this certificate is complete and accurate. I understand the information is collected for the purpose of preparing disclosures in the notes to the financial statements of the controlled entities of the State of Victoria and consolidated State Annual Financial Report. I give permission to the relevant department/agency to disseminate the information provided in the certificate to the relevant departments and agencies.

Print and sign name:

Date:

Privacy Fact Sheet

Related Party Disclosures for Victorian Public Sector Financial Reports

Purpose of this Fact Sheet

This Fact Sheet has been provided to ensure that close family members are aware of their rights as described in the *Privacy and Data Protection Act 2014*.

Related Party Disclosures

Under Australian Accounting Standard AASB 124 *Related Party Disclosures* (AASB124), all public sector entities are required to disclose their related party transactions. This means any transactions that involves a Key Management Personnel (KMP), their close family members and entities under their control. This requirement came into effect 1 July 2016.

The objective of AASB 124 is to ensure that the department or entity's financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

To give effect to this, the adoption of AASB 124 requires you to submit information about related party transactions between yourself, your family members or entities under your control with an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of.

The State of Victoria collects information in accordance with the *Privacy and Data Protection Act 2014*. This fact sheet meets the requirements of relevant Information Privacy Principles under that Act.

Who is a KMP?

Under AASB 124, a KMP is a person with the authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

All Cabinet Ministers are regarded as KMP of the State. The accounting standard also defines a person who has significant influence or a close member of that person's family to be related to a reporting entity if that person is a member of the KMP of the entity or a parent of the entity. Portfolio ministers are responsible for the oversight of their relevant portfolio departments and entities. So, the portfolio ministers will be considered KMP of their relevant portfolio departments and agencies.

In addition, departments and agencies will need to assess who are the relevant executives that meet the definition of a KMP and their respective related parties.

In general, members forming an entity's governing board will typically be considered KMP of the entity as they are considered as having the strategic decision making authority for the planning, directing and controlling of the overall activities of the entity. Executives or senior managers that have been delegated the operational authority for specific functions of the entity would not be considered KMP for the purposes of AASB 124.

What is a related party transaction?

Under AASB 124, examples of related party transactions include the following:

| Related party transactions under AASB 124: | |
|---|---|
| Close family members employed in a senior position by the Victorian Government. A senior position is a position that has decision making responsibility of a KMP. | Any transactions by the KMP, close family members or related entity that comprise a non-standard contract or agreement with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| Loans to/from the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Equity contribution from an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of, to a related party entity. |
| Debts forgiven or partially forgiven by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Collateral, indemnity or guarantee received from/given to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| Settlement of liabilities on behalf of you, your close family members or entities controlled or jointly controlled by you and your close family members, by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Receipt/payment of ex gratia payments or receipt of grants or subsidies greater than \$5,000 (individually) from/to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| Receipt of dividend income from, or payment of dividends to, an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Receipt/recognition of entitlement of interest income from or incurrence of interest expense to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| Lease of an asset to/from an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Provision/purchase of goods/services to/from the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| Purchase or sale of non-financial assets from/to an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of e.g. land, buildings, intangibles. | Commitment to execute a transaction contingent upon whether an event occurs or does not occur in the future with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |

What kinds of transactions are not required to be disclosed?

Typical citizen transactions are not required to be disclosed. These transactions are where you or a close family member interacts with a government entity in the capacity as a citizen. Some examples include paying personal tax or receiving tax refunds, receiving a social welfare benefit, receiving public health services, receiving education or student allowances, purchasing government bonds directly from the market, and obtaining a Medicare rebate when visiting the GP.

What information is being collected?

You have received this privacy fact sheet because your personal information may be collected as part of the entity's obligations in relation to the disclosure of related party transactions as required under AASB 124. Personal information collected includes:

- your name or your business name;
- details of any relevant transactions with the entity or its controlled entity;
- total value of transactions with the entity or its controlled entity, for the relevant financial year;
- outstanding balances as at the end of the financial year;
- terms and conditions related to the transaction.

Who will be collecting this information?

The relevant department or agency will be collecting the personal information from KMP of the department or agency.

Will my information be disclosed?

Yes, the department or entity will need to disclose personal information to a relevant department or portfolio agency in order for the entity to comply with the reporting requirements of AASB 124.

What will this information be used for?

In most instances, the information received by the department or entity will be de-identified, unless required to be disclosed separately and collated with other data for inclusion in relevant public sector entities' financial statements, and tabled in Parliament. Please be advised that your personal information will be protected in accordance with the *Privacy and Data Protection Act 2014*.

Can I access or correct my own information?

Yes, by contacting the Privacy Officer within the relevant department or portfolio agency.

What if information is received about a third party, such as a close family member?

The relevant department or agency will take reasonable steps to ensure that the close family member is aware of their rights as described in the *Privacy and Data Protection Act 2014*, through the provision of this Privacy Fact Sheet.

Where can I go for further information?

By contacting the Privacy Officer within that department or portfolio agency.

Reference for completing Declaration Certificate

Details of related party transactions [selection list](#)

| | |
|---|---|
| I. Nature of transactions | |
| 1A. | Loans to/from the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 1B. | Equity contribution from the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 2. | Debts forgiven or partially forgiven by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 3. | A collateral, indemnity or guarantee received from/given to an entity controlled by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 4. | Settlement of liabilities on behalf of you, your close family members or entities controlled or jointly controlled by you and your close family members, by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 5. | Receipt/payment of ex gratia payments, or receipt of grants or subsidies greater than \$5 000 (individually) from/to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 6A. | Receipt/recognition of entitlement of interest income from, or incurrence of interest expense to , the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 6B. | Receipt of dividend income from, or payment of dividends to , the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 7A. | Provision/purchase of goods/services to/from an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 7B. | Purchase or sale of non-financial assets from/to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of e.g. land, buildings. |
| 8. | Lease of an asset to/from the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| 9. | Commitment to execute a transaction contingent upon whether an event occurs or does not occur in the future, with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| II. Nature of the relationship between the counterparty of the transaction and the KMP | |
| A. | Yourself. |
| B. | Your spouse or domestic partner (as a close family member). |
| C. | Your children (as close family members). |
| D. | Your spouse or domestic partner's children (as close family members). |
| E. | Other dependent family members (please specify) (as close family members). |
| F. | Other close family members who are expected to influence, or be influenced by, you (please specify). |
| G. | An entity controlled by you or your close family members (please specify the name of the entity and control power by you or your close family members). |
| H. | An entity that you or your close family members have significant influence over (please specify the name of the entity and influence by you or your close family members). |
| III. Common terms and conditions | |
| A. | Standard terms or non-standard terms (standard terms are standard procurement terms and conditions of the State. Non-standard terms are terms and conditions that are favourable, negotiated/varied or unusual – please provide details about non-standard terms). |
| B. | Secured or unsecured. |
| C. | The nature of the consideration for settlement of the outstanding balances, i.e. bank transfers or payment in kind. |

| IV. | <i>Procurement approach to be included in terms and conditions</i> ¹⁵ |
|-----|--|
| A. | Open tender: an arrangement where an advertisement is placed in local newspapers/trade journals inviting contractors to apply. |
| B. | Limited or closed tender/selective tender: only pre-qualified or known bidders are allowed to participate. |
| C. | Single tender: the purchaser sends the tender to one particular party. |
| D. | Negotiated tender: normally one contractor is approached and the tender is mainly used for specialist work, e.g. lift system or airport project. |
| E. | Invited tendering: an organisation contacts a select number of suppliers directly to perform the contract. It is generally used for specialist work, emergency situations or for low value, low risk and off the shelf options. |
| F. | Multi-stage tendering: used when there are a large number of respondents. At each stage in the process, the suppliers are culled to those who are most suited to the specific contract requirements. |
| G. | Unsolicited proposal: a proposal that is not in response to a government request. These ideas can often contain qualities that are new, unique and innovative with considerable benefits to the State. |
| H. | Other approach (please specify). |

¹⁵ The disclosure of procurement approaches will enhance the transparency of related party transactions and is considered relevant information to users of financial statements.

Definitions and guidance for AASB 124

Item 1. Key Management Personnel (KMP)

KMP are those people with the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly i.e. those charged with decision making responsibilities.

For the State

Cabinet is the principal decision making body of the government. All cabinet members will be considered KMP of the State.

For departments and agencies

Portfolio ministers are responsible for the oversight of their relevant portfolio departments and entities. So, the portfolio ministers will be considered KMP of their respective portfolio departments and agencies.

In addition, departments and agencies would also need to assess which executives meet the definition of a KMP for their respective department and agencies.

In general, members forming an entity's governing board are considered having the strategic decision-making authority for the planning, directing and controlling of the overall activities of the entity. As a result, members of the governing board will typically be considered KMP of the entity. For executives or senior managers who have been delegated the operational authority for specific functions of the entity, they will generally not be considered as KMP for the purpose of AASB 124. Departments and entities should exercise judgement to determine who will be considered a KMP based on the specific facts and circumstances. Attention should also be given to 'de facto' decision makers. 'De facto' decision makers are persons that are not part of the governing board, but have the strategic decision making authority. If such persons exist, they will be considered as KMP and should be disclosed in accordance with AASB 124. It should be noted that while it is rare to have 'de facto' decision makers in the public sector, departments and entities should undertake an assessment to determine whether the 'de facto' decision makers exist or not.

A **related party**, as defined by the standard, includes:

- (a) a person and the close family member of that person, if that person has control or joint control over the entity; has significant influence over the entity; or is a KMP of the entity; and
- (b) an entity that is (i) a controlled entity of the State; (ii) an associate or joint venture of the entity; or (iii) controlled, jointly controlled or significantly influenced by a person identified in (a) above.

Significant influence is having the power to participate in or ability to affect the financial and operating policy decisions of the KMP.

As all Cabinet ministers are considered KMP of the State, they are also related parties of the State and all its controlled entities (i.e. departments and agencies).

Note that the same assessment would also need to be done at the department and agency level for executives who are KMP of the entity.

Close family members are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

'Children' include step, adoptive, dependant, non-dependant, adult children and children not living at home (unless they are estranged).

'Spouse' or 'domestic' partner includes married, de facto, civil union partnerships, but excludes separated or divorced spouses or partners.

Dependants are any family members who are **financially supported** by you, your spouse or domestic partner and may include siblings, parents, elderly dependants such as grandparents, or disabled family members.

It should be noted that while the definition of close family members does not specifically include siblings, parents and other extended family, it is expected that transactions with other family members outside the immediate family that the KMP is aware of are also taken into consideration for declaration on a case-by-case basis if the relationship can be reasonably expected to influence, or be influenced by the KMP's dealing with the entity. This includes cousins, siblings and any other members of their extended family. This will be a matter of judgement by respective parties.

Item 2. Control

Control is defined as the **power to govern the financial and operating policies** of an entity so as to obtain benefits from its activities. **Joint control** is the **contractually agreed sharing of control** over an economic activity. An entity controlled or jointly controlled by you and your close family members means that you and/or any close family members have the ability or power to direct an entity's relevant activities that can significantly affect its returns, and have rights or exposure to the financial and non-financial returns of the entity.

Types of entities include companies, partnerships, sole traders and trusts.

Examples

Entities controlled or jointly controlled by you and/or any close family members may include:

- A company where you have 30 per cent voting shares and your spouse has a 30 per cent voting shares;
- A partnership of two people where your spouse is one of the partners; or
- A trust where you and your spouse are two of three trustees.

Entities not controlled or jointly controlled by you and/or your close family members may include:

- A company where you have a 25 per cent voting shares and your spouse has a 20 per cent voting shares;
- A partnership of three people where your spouse is one of the partners;
- A large accountancy practice with multiple partners where your child is a partner;
- A trust where you and your spouse are two of five or more trustees;
- A non-government company where your son/daughter is the chief executive and has minor voting shares (i.e. less than 50 per cent voting power in the company); or
- A non-government company where your spouse is a director of the board and has minor voting shares (i.e. less than 50 per cent voting power in the company).

Item 3. Typical citizen transactions

Typical citizen transactions are not required to be disclosed. These transactions are where you and/or any close family members interact with a government entity in the capacity of a citizen.

Examples

- Paying personal taxes or receiving tax refunds;
- Paying taxes or receiving tax refunds by an entity controlled or jointly controlled by you and/or any close family members;
- Receiving a social welfare benefit;
- Receiving public health services;
- Receiving public housing;
- Receiving education services or student allowances;
- Paying licence fees;
- Utility supplied by entities controlled by State of Victoria, e.g. water supply;
- Allowances and benefits from a department of the State of Victoria, e.g. unemployment/disability allowance;
- Purchasing government bonds directly from the market;
- Obtaining a Medicare rebate when visiting the GP.

Item 4. Provision/purchase of goods and services

Provision/purchase of goods and services with entities that you are a KMP of means there will be a business agreement between (a) you and/or your close family members or entities controlled or jointly controlled by you or your close family members, and (b) the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. **For transactions that are on standard terms and conditions, a threshold may be applied; otherwise they should be disclosed regardless of the financial quantum of the transaction.**

Examples

- Your spouse owns 50 per cent of an advertising agency that is contracted to develop the marketing strategy to roll out a public program and design the web page on behalf of a department or agency that you are KMP of, or an entity controlled by the department or agency that you are a KMP of.
- Your son owns an IT company and sells PCs to a department or agency that you are a KMP of, or an entity controlled by the department or agency that you are a KMP of.
- Your partner owns an engineering consulting firm which provides advisory services to a department or agency that you are a KMP of, or an entity controlled by the department or agency that you are a KMP of.
- Your son jointly controls a construction company and his company wins the tender to rebuild a hospital for a department or agency that you are a KMP of, or an entity controlled by the department or agency that you are a KMP of.

Item 5. Assets

Assets include plant, equipment, land, buildings or businesses. It also includes intangible assets like rights, quotas, and research and development. **For transactions that are on standard terms and conditions, a threshold may be applied; otherwise they should be disclosed regardless of the financial quantum of the transaction.**

Examples

- A piece of land owned by a department or agency that you are a KMP of, or an entity controlled by the department or agency that you are a KMP of, is sold to a company owned by you.
- An investment property owned by a trust that you and your spouse jointly control, is sold to a department or agency that you are a KMP of, or an entity controlled by the department or agency that you are a KMP of.

Item 6. Transaction value

When determining whether the value of the transactions/assets purchased or sold, the **actual transaction value should be used**, unless there is evidence or indication that the actual transaction value is **significantly different from the market value**. In these circumstances, **the market value should be used**. **Market value** means an amount that knowledgeable, willing parties in an arm's length transaction would pay when a good, service or business is sold, purchased or exchanged. **For transactions that are on standard terms and conditions a threshold of \$100,000 may be applied; otherwise they should be disclosed regardless of the financial quantum of the transaction.**

Example

In certain purchases and sales of assets, the market value may differ from the actual consideration. An extreme example is where a business has a market value of \$1 million is purchased from the government for a nominal consideration of \$1. This transaction would need to be reported and described in this certificate as its market value exceeds the \$100,000 threshold although the actual transaction price does not.

Item 7. Debts forgiven or partially forgiven

Debts forgiven or partially forgiven by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of, during the year are required to be disclosed in this certificate. This includes forgiveness of any of your debts and the debts of any close family members or entities controlled or jointly controlled by you and your close family members.

Item 8. Collaterals, indemnities and guarantees

Collaterals, indemnities and guarantees provided by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of, during the year are required to be disclosed in this certificate. A collateral is something pledged as security for repayment of a loan which may be forfeited in the event of a default. An indemnity or guarantee is a legally binding promise of one party to assume responsibility for a debt or performance of an obligation of another party should that party default in some way. Guarantees generally relate to the payment of money, but may alternatively or in addition require the performance of services.

APPENDIX 9: AASB 124 RELATED PARTY DISCLOSURES – ENTITY MANAGEMENT CHECKLIST

Background

AASB 124 *Related Party Disclosures* requires the disclosure of material related party relationships and transactions. The objective of the standard is to ensure that the entity's financial statements contain disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by related party transactions and outstanding balances, including commitments, with such parties.

The Australian Accounting Standards Board (AASB) extended the scope of AASB 124 to include not-for-profit (NFP) entities, including all Victorian government departments, applicable from 1 July 2016.

Departments and agencies will be responsible for ensuring the completeness and accuracy of the related party information disclosed in their financial statements according to the AASB 124 requirements.

Guidance

Given the sensitive nature of this information, and in the interest of maintaining privacy, a self-declaration approach, whereby Key Management Personnel (KMP) self-declare all their related party transactions, has been agreed with the Victorian Auditor-General's Office (VAGO). A declaration certificate has been developed for all KMP to provide the required information for the relevant reporting period.

As departments and agencies will only receive disclosed transactions for the declaration certificate, entities (management) will also need to perform reasonable additional and complementary procedures to help assure themselves on the completeness of the related party information sourced from KMP declarations as part of the related party disclosure note for completion of their financial statements.

A checklist has been developed to support management's assessment of the completeness of the related party disclosures, and to ensure the following is achieved:

- **Completeness of related party information**

In order to ensure completeness of AASB 124 related party disclosures, entities (management) should undertake transaction searches within their payroll and vendor systems to identify if there are any related party transactions for each respective KMP.

- **Accuracy of related party information**

All public sector entities should verify the accuracy of the information reported by KMP in their AASB 124 declaration certificates by confirming the details to their accounting records in their financial systems and the terms and conditions of the relevant contracts. This may require them to liaise with their procurement/contract management teams.

Entities should also refer to their own financial records and disclose any provisions for doubtful debts or bad debts expense recognised in relation to outstanding balances declared by KMP.

Note that entities will be expected to refer any proposed disclosures, which are specific to individual KMP, with the relevant KMP to ensure they have an opportunity to validate the proposed disclosure.

Checklist to assist reporting entities with the completeness review of their related party disclosures in their financial reports

This checklist has been developed to support management's assessment of the completeness of the related party disclosure in their annual financial report.

Part A: Identifying KMP of the reporting entity

KMP are those people with the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly i.e. those charged with decision-making responsibilities. Note this excludes people who have been delegated authority to implement decisions at an operational level.

KMP for the State

Cabinet is the principal decision making body of the Government, therefore all Cabinet ministers will be considered KMP of the State. All Cabinet ministers will also be considered related parties of the State and all its controlled entities (i.e. departments and agencies). Refer to Appendix 9A on page 304 for a list of all Cabinet ministers.

KMP for departments and agencies

Portfolio ministers are responsible for the oversight of their relevant portfolio departments and entities, and will be considered KMP of their respective portfolio departments and entities. Note that, all other Cabinet ministers and their related parties will be considered related parties of your department or agency.

In addition, departments and agencies will need to assess who are the **relevant executives** that meet the definition of a KMP and their respective related parties.

In general, members forming an entity's governing board will typically be considered KMP of the entity as they are considered as having the strategic decision making authority for the planning, directing and controlling of the overall activities of the entity.

Executives or senior managers that have been delegated the operational authority for specific functions of the entity would not be considered KMP for the purposes of AASB 124.

Frequency of data collection

As not all not-for-profit public sector entities within the State have 30 June year ends, i.e. TAFES and schools have 31 December year ends, the State has to collect information from KMP more frequently. Entities are encouraged to adopt a collection frequency that is appropriate for their needs.

The **first submission** will cover the period 1 July to 31 December. All KMP will be expected to complete and submit their certificates in the month following the first submission period (i.e. January).

A **second submission** will cover the remaining period 1 January to 30 June to report on any additional transactions that may have occurred during the quarter. The previous certificate will be included to facilitate completion of the final submission for the 2016-17 financial year. All KMP will be expected to complete and submit their certificates in the month following the second submission period (i.e. July).

Part A: Identifying KMP of the reporting entity (continued)

As the objective of the management checklist is to support management in the preparation and completeness of their related party disclosures in the financial statements, management is strongly encouraged to perform the checklist steps by the second data submission period for KMP declaration certificates.

| | | |
|--------------------------|--|---|
| Entity name | <i>(e.g. Department of Treasury and Finance)</i> | |
| Period covered | <input type="checkbox"/> First submission 1 July – 31 December Due: January | <input type="checkbox"/> Second submission 1 January – 30 June Due: July |
| KMP of the entity | <p><i>List Portfolio minister(s)</i></p> <p><i>List all relevant executives (some examples for departments include: Secretary, Deputy Secretaries. Some examples for agencies include: governing board members, CEO)</i></p> <p>Note: <i>Preparers will need to apply judgement in determining who the relevant executives for their respective entities are. Refer to Appendix 10B on page 301 for guidance on identifying KMP of your reporting entity.</i></p> | |

Part B: Steps to undertake for management's assessment of completeness

The proposed steps outlined below are designed to help support and validate the information provided in the declaration certificate completed by each KMP. Preparers are advised to maintain documents on file to support the work performed.

The checklist should be completed with reference to the additional information provided in Appendix 9B on page 306.

| Steps to undertake | Guidance |
|--|--|
| <p>1. Undertake transactional searches within your payroll and vendor systems for any known or identified related party transactions of the entity's KMP based on information obtained from the following sources:</p> <p>For ministers:</p> <ul style="list-style-type: none"> – the 'Register of members' interests' for Ministers maintained by the Parliament of Victoria, for all Cabinet ministers (Refer to Appendix A on page 300). <p>For KMP executives:</p> <ul style="list-style-type: none"> – your entity's 'Declaration and management of private interest form' for executive officers. <p>All KMP:</p> <ul style="list-style-type: none"> – other information obtained based on reasonable enquiries of relevant areas of the organisation to identify any other related parties of KMP (e.g. senior management, contract/procurement team). <p>Validate the accuracy of the transactions declared in the KMP declaration certificates against the related party transactions identified in your payroll and vendor system searches.</p> | <p>This step is performed to ensure completeness and accuracy of the related party disclosure for the reporting period, by checking if there are any other transactions to be included in the KMP declaration checklist, and validating the information that has been declared.</p> <p>Based on the information obtained from the sources listed on the left hand side, identify any KMP related parties (e.g. persons or companies).</p> <ul style="list-style-type: none"> • Review the payroll system to identify if any of the identified related parties are in a senior appointment within the entity, to which related party transactions may exist. • Perform a search of the trade creditors/accounts payable ledger to identify if there are any transactions with the identified related parties. <p>Review of contracts and agreements</p> <ul style="list-style-type: none"> • Liaise with your procurement/contract management team to sight the contract or agreement for the related party transaction identified in the vendor search above. Determine the total contract value, and the terms and conditions of the arrangement. • Based on discussions with your procurement/contract management team, determine if there are any other known related party contracts or agreements that your entity has entered into with any KMP. <p>If the probity review process of the contract procurement identified any entity that is a related party of a KMP:</p> <ul style="list-style-type: none"> – use the information to conduct a search in your vendor system to determine if any related party transactions have occurred during the relevant reporting period; and – assess if any additional searches may be required (e.g. an ASIC search) to identify any other related party information that may assist with your vendor review, as these transactions may be required to be included in the KMP declaration certificate. |
| <p>2. As part of your assessment for the provisioning of aged debtors, identify any impairment of amounts provided to related parties, that have been identified in the transactional searches performed above.</p> <p><i>(Note this would be an exception rather than the norm as it would be rare for amounts provided to related parties to be impaired)</i></p> | <p>This step is performed to identify if there is any impairment of outstanding balances associated with related party transactions.</p> <p>Provision for doubtful debts</p> <ul style="list-style-type: none"> • Review the provision for doubtful debts account to identify if there are any amounts related to any outstanding balances for related party transactions identified in the searches performed above. <p>Bad debts expense</p> <ul style="list-style-type: none"> • Review the bad or doubtful debts expenses recognised during the period in respect of bad or doubtful debts due from related parties identified in the searches performed above. |

| <i>Steps to undertake</i> | <i>Guidance</i> |
|--|--|
| 3. Collate the information obtained from the transactional searches performed and determine the required disclosure. | <p>This step is performed to prepare and finalise the related party disclosure note in your financial statements.</p> <p>Collate the related party transactions identified in the searches performed above and determine the required disclosure.</p> <ul style="list-style-type: none"> • Where transactions are of a similar nature, determine if they can be disclosed in aggregate. • Separate disclosure of a related party transaction may be necessary to understand the effects of the transaction on the financial statements of the entity. <p>Separate disclosure may be required for non-standard transactions that are not at arms-length, under favourable or negotiated terms or unusual (e.g. debt forgiveness, guarantees or indemnities provided or received).</p> <ul style="list-style-type: none"> • For related party transactions of KMPs, ensure you have shared the draft disclosure with the relevant KMP prior to the finalisation of the note disclosure, to confirm the details are correct. |

Appendix 9A – Cabinet ministers as at 1 July 2017

Information provided for Cabinet ministers is current as at 1 July 2017. Entities will need to refer to the Parliament website to ensure ministers and their delegated portfolio information is current for subsequent periods (www.parliament.vic.gov.au/members/ministers).

Entities will need to ensure the disclosure captures all ministers appointed during the period, including any recent appointments and departures.

In addition, entities will need to develop an equivalent listing to capture all executive KMP appointments and departures during the reporting period.

| <i>Minister</i> | <i>Portfolio</i> |
|-----------------------------|--|
| The Hon Daniel Andrews | Premier of Victoria Leader of the Labor Party |
| The Hon James Merlino MP | Deputy Premier Deputy Leader of the Victorian Labor Party Minister for Education Minister for Emergency Services |
| Mr Tim Pallas MP | Treasurer Minister for Resources |
| Mr Gavin Jennings MLC | Special Minister of State Leader of the Government in the Legislative Council |
| Hon Jacinta Allan MP | Minister for Public Transport Minister for Major Projects Leader of the House (Assembly) |
| The Hon Ben Carroll MP | Minister for Industry and Employment |
| The Hon Lily D'Ambrosio MP | Minister for Energy, Environment and Climate Change Minister for Suburban Development |
| Hon Luke Donnellan MP | Minister for Roads and Road Safety Minister for Ports |
| The Hon John Eren MP | Minister for Tourism and Major Events Minister for Sport Minister for Veterans |
| Martin Foley MP | Minister for Housing, Disability and Ageing Minister for Mental Health Minister for Equality Minister for Creative Industries |
| Hon Jill Hennessy MP | Minister for Health Minister for Ambulance Services |
| The Hon Natalie Hutchins MP | Minister for Aboriginal Affairs Minister for Industrial Relations Minister for Women Minister for Prevention of Family Violence |
| The Hon Marlene Kairouz MP | Minister for Consumer Affairs, Gaming and Liquor Regulation Minister for Local Government |
| Hon Lisa Neville MP | Minister for Police Minister for Water |
| The Hon Martin Pakula MP | Attorney General Minister for Racing |
| Mr Robin Scott MP | Minister for Finance Minister for Multicultural Affairs |
| The Hon Richard Wynne MP | Minister for Planning |
| The Hon Philip Dalidakis MP | Minister for Innovation and the Digital Economy Minister for Trade and Investment Minister for Small Business |
| The Hon Gayle Tierney MLC | Minister for Training Skills and International Education Minister for International Education Minister for Corrections |
| The Hon Jenny Mikakos MP | Minister for Families and Children Minister for Early Childhood Education Minister for Youth Affairs |
| The Hon Jaala Pulford MLC | Deputy Leader of the Government in the Legislative Council Minister for Agriculture Minister for Regional Development |

Changes since 1 July 2017 to 30 June 2018

Entities will need to ensure they monitor and include any changes that occur during the remaining months of the reporting period.

| <i>Minister</i> | <i>Portfolio</i> |
|--|--|
| The Hon. Fiona Richardson passed away on 23 August 2017. Her ministerial portfolios transferred to the Hon. Natalie Hutchinson on 16 October 2017. | Minister for Women Minister for Prevention of Family Violence |
| Former Minister Wade Noonan MP resigned on 10 October 2017 and was replaced by Minister Ben Carroll on 16 October 2017. | Minister for Industry and Employment Minister for Resources |

Register of Members' Interests

www.parliament.vic.gov.au/publications/register-of-interests

| <i>Agency:</i> | <i>Title of report:</i> | <i>Date tabled:</i> | <i>Files</i> |
|------------------------|---|---------------------|---|
| Parliament of Victoria | Register of Members' Interest – Summary of Primary Return — March 2018 and Summary of Variations Notified Between 19 February and 26 March 2018 | 2018/03/09 |  Summary of Primary Return March 2018 and Summary of Variations notified between 19 February and 26 March 2018 |
| Parliament of Victoria | Register of Members' Interest – Summary of Primary Return — December 2017 and Summary of Variations Notified between 30 November 2017 and 6 February 2018 | 2018/02/08 |  Summary of Primary Return December 2017 and Summary of Variations notified between 30 November 2017 and 6 February 2018 |
| Parliament of Victoria | Register of Members' Interest – Summary of Primary Return – November 2017 and Summary of Variations Notified between 22 September and 28 November 2017 | 2017/11/30 |  Summary of Primary Return November 2017 and Summary of Variations notified between 22 September and 28 November 2017 |
| Parliament of Victoria | Register of Members' Interests – Cumulative Summary of Returns as at 30 September 2017 | 2017/10/19 |  Legislative Council Cumulative Summary of Returns as at 30 September 2017 |

Appendix 9B – Fact Sheet

Definition of Key Management Personnel (KMP)

KMP are those people with the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly i.e. those charged with decision-making responsibilities.

KMP for the State

Cabinet is the principal decision making body of the government. All cabinet members will be considered KMP of the State.

KMP for departments and agencies

Portfolio Ministers

Portfolio ministers are responsible for the oversight of their relevant portfolio departments and entities. So, the Portfolio ministers will be considered KMP of their respective departments and agencies.

Relevant executives of the entity

In general, members forming an entity's governing board have the strategic decision-making authority for the planning, directing and controlling of the overall activities of the entity. As a result, members of the governing board will typically be considered KMP of the entity.

As a guide for departments, KMP may include members of the Senior Executive Group (i.e. the Secretary and divisional Deputy Secretaries) as they are responsible for the delivery of the department's services, and have the authority and responsibility for planning, directing and controlling the activities of the entity.

As a guide for agencies, KMP may include the Board of Directors and the executive management team, as they are considered to be ultimately responsible for planning, directing and controlling the activities of the entity. As the Board is the agency's governing body, they are responsible for ensuring the entity's strategic objectives are achieved, while the executive management team, who report to the Board, are responsible for the execution and authority of the day-to-day operations of the entity.

For executives or senior managers that have been delegated the operational authority for specific functions of the entity (i.e. Director of Human Resources or Assistant Director of Financial Reporting), they will not be considered as KMP for the purposes of AASB 124.

Departments and agencies should exercise judgement to determine who will be considered a KMP based on the specific facts and circumstances, particularly given officer titles at departments and agencies can vary.

Attention should also be given to 'de facto' decision makers. 'De facto' decision makers are persons that are not party of the governing board, but have the strategic decision making authority. If such persons exist, they will be considered as KMP and should be disclosed in accordance with AASB 124. It should be noted that while it is rare to have 'de facto' decision makers in the public sector, departments and entities should undertake an assessment to determine whether the 'de facto' decision makers exist or not.

Definition of related parties

A related party is defined by the standard as a person or an entity that is related to the State controlled reporting entity that is preparing its financial statements.

This includes:

- KMP of the reporting entity or of the State, or
- a close family member of the KMP, or
- the KMP's or their close family member's personal related entities (for example, companies, partnerships, interest in joint ventures, etc.).

Personal related entities include any entities that the KMP or their close family member:

- has significant influence of the entity; or
- the KMP or their close family member has control or joint control over the reporting entity.

Close family members are defined as those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependents of that person or that person's spouse or domestic partner.

'**Children**' include step, adoptive, dependent, non-dependent, adult children and children not living at home (unless they are estranged).

'**Spouse**' or '**domestic partner**' includes married, de facto, civil union partnerships, but excludes separated or divorced spouses or partners.

Dependents are any family members who are financially supported by KMP, KMP's spouse or domestic partner and may include siblings, parents, elderly dependents, such as grandparents, or disabled family members.

It should be noted that while the definition of close family members does not specifically include siblings, parents and other extended family, regard must be given to relationships of other family members i.e. those outside the immediate family that may be expected to influence, or be influenced by a KMP's decisions, in which case they would need to be taken into consideration on a case by case basis it is expected that transactions with other family members outside the immediate family that the KMP is aware of are also taken into consideration for declaration on a case-by-case basis if the relationship can be reasonably expected to influence, or be influenced by the KMP dealing with the entity. This may include cousins, siblings and any other members of their extended family. This will be a matter of judgement by respective parties.

Significant influence is having the power to participate in or ability to affect the financial and operating policy decisions of the KMP.

Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. **Joint control** is the contractually agreed sharing of control over an economic activity. An entity controlled or jointly controlled by KMP and KMP's close family members means that KMP and/or any close family members have the ability or power to direct an entity's relevant activities that can significantly affect its returns, and have rights or exposure to the financial and non-financial returns of the entity.

Types of entities include companies, partnerships, sole traders and trusts.

Related parties for public sector entities

As all Cabinet ministers are considered KMP of the State, they are also related parties of the State and all its controlled entities (i.e. departments and agencies).

Assessment will need to be performed at the department and agency level to determine the related parties of executives who are KMP of the entity.

What is a related party transaction?

Under AASB 124, a related party transaction is any transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Examples of related party relationships include the following:

Related party relationships under AASB 124 include:

- Close family members employed in a senior position by the Victorian Government. A senior position is a position that has decision making responsibility of a KMP.
- Any transactions by the KMP, close family members or related entity that comprise a non-standard contract or agreement with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of.

Cabinet Minister's wife is the Secretary of a department.

Deputy Secretary's son owns a company that has a contract to provide web design services to his department.

Portfolio Minister's daughter-in-law is a board member of a PNFC entity within his portfolio

Board member jointly owns a company that has made a significant acquisition of a block of land from the public sector agency he is a board member of.

APPENDIX 9B

Examples of related party transactions include the following:

Related party transactions under AASB 124:

- Any transactions by the KMP, close family members or a related entity that comprise a non-standard contract or agreement with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of.

| | |
|---|---|
| Loans to/from the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Equity contribution from an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of, to a related party entity. |
| Debts forgiven or partially forgiven by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Collateral, indemnity or guarantee received from/given to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| Settlement of liabilities on behalf of you, your close family members or entities controlled or jointly controlled by you and your close family members, by the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Receipt/payment of ex gratia payments or receipt of grants or subsidies greater than \$5,000 (individually) from/to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| Receipt of dividend income from, or payment of dividends to, an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Receipt/recognition of entitlement of interest income from or incurrance of interest expense to the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| Lease of an asset to/from an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. | Provision/purchase of goods/services to/from the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |
| Purchase or sale of non-financial assets from/to an entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of e.g. land, buildings, intangibles. | Commitment to execute a transaction contingent upon whether an event occurs or does not occur in the future with the entity that you are a KMP of, or any entity controlled by the entity that you are a KMP of. |

Transactions not required to be disclosed

Typical citizen transactions are not required to be disclosed. These transactions are where KMP or a KMP's close family member interacts with a government entity in the capacity as a citizen. Some Commonwealth examples include paying personal tax or receiving tax refunds, receiving a social welfare benefit, receiving public health services, receiving education or student allowances, purchasing government bonds directly from the market, and obtaining a Medicare rebate when visiting the doctor. Some State examples include land tax, stamp duty, council rates and parking fines.

Disclosure threshold

Provision/purchase of goods and services with entities controlled by the State of Victoria means there will be a business agreement between (a) the KMP or their related party, and (b) the entity.

Assets include plant, equipment, land, buildings or businesses. It also includes intangible assets like rights, quotas, and research and development.

For transactions or contracts on standard terms and conditions of the State, KMP may apply a threshold of \$100,000 to exclude declaring those transactions less than the threshold. However, KMP may choose to declare all transactions. For all other transactions or contracts, KMP are required to declare all transactions, regardless of the financial amount.

For example, where the entity has a standard contract with a KMP's related party to provide IT equipment for a total value of \$60,000 over three years, the contract is below the \$100,000 threshold. The KMP may elect to not declare the transaction. However, if the contract is to provide services for a total value of \$150,000 over three years, the contract amount is above the \$100,000 threshold. The transaction must be declared even though the service amount each year of \$50,000 is below the \$100,000 threshold.

An example of a contract or agreement that is not on standard terms and conditions of the State is where the entity has a contract with a KMP's related party to provide web design services for a total value of \$25,000 over two years. The negotiations with the KMP's related party has resulted in an upfront prepayment of the contract in one lump sum prior to any services being rendered, which is not consistent with current procurement terms of the State. As a result, the related party contract would need to be declared regardless of its total value.

Declarations of interest

As part of management's assessment of completeness, preparers are strongly encouraged to perform transactional searches for any other known related party transactions of their KMP. Entities can identify other related parties of the KMP from the declaration of personal interest forms that ministers and executives are required to complete annually.

- **Portfolio ministers**

Members of the Victorian Parliament, must declare their personal interests under the *Members of Parliament (Register of Interests) Act 1978*. These declarations form a register of members' interest. A cumulative summary of the register is publicly available each September on the Parliament of Victoria website (www.parliament.vic.gov.au/publications/register-of-interests).

- **Executives**

In accordance with the *Public Administration Act 2004* and the Code of Conduct for Victorian Public Sector Employees 2015, all executive officers (including public entity board appointees) are required to complete the entity's *Declaration and management of private interest form* upon appointment, annually after appointment and within five working days after the employee's circumstances change. Entities will need to liaise with their Human Resources Shared Services team (or departmental equivalent) to access these forms.

Preparation of related party disclosure note

Accessibility of KMP declaration certificates

The information collected (declared) will enable departments and agencies to review the information received from their respective KMP to support drafting of the related party disclosures for the inclusion in the relevant departments and agencies related party note.

- **Ministers**

Cabinet ministers will submit their certificates to the Department of Premier and Cabinet (DPC) via a secure Cabinet portal, accessible only to DTF.

Where related party transactions have been declared in the certificate, DTF will provide the required information to the relevant portfolio departments and agencies. **Note that preparers will need to provide a draft of any proposed related party disclosures to their portfolio minister(s) for approval, prior to finalising the note in their financial statements.**

Due to the sensitive nature of the data collected, all information collected from ministers should be stored in a secure manner. In most instances, we expect the information received from KMP will be de-identified as it will most likely be disclosed in aggregate, unless required to be disclosed separately and collated with other data for inclusion in relevant public sector entities' financial statements, and tabled in Parliament.

- **Executives**

Reporting entities will need to develop a similar internal process to coordinate the collection of executive KMP declaration certificates. The process will need to ensure that privacy is maintained and all documents are securely stored.

Materiality threshold

The accounting standards only require the disclosure of material related party transactions and outstanding balances. Materiality is subject to professional judgement and goes beyond the dollar value of the transaction or balance, as it could influence the economic decisions that users make.

However, it is important to note that all KMP should declare **all** relevant related party transactions, noting that typical citizen transactions are not required to be declared. A threshold of \$100 000 may be applied for standard commercial related party contracts in an effort to ease the reporting burden on KMP. This is because a transaction that may appear immaterial on its own, may in combination with other like transactions have a material effect on the State's, department's or agency's financial statements and warrants disclosure.

Items of a similar nature may **be disclosed in aggregate** except where separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the department or entity. Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

APPENDIX 10: WHEN TO ACCOUNT FOR SURPLUS ASSETS AS 'HELD FOR SALE'

Background

Assets are considered to be 'surplus' when they no longer contribute to an entity's current or future service delivery needs. This could be due to services being moved to another location; demographic changes (i.e. population movements) or assets no longer required for strategic reasons (i.e. as a result of a government decision).

When a reporting entity has confirmed that a major non-financial asset (i.e. land or a building) is 'surplus' to its operations, approval should be sought from the relevant authority for the sale or transfer of the asset.

Entities can then engage the assistance of the Department of Treasury and Finance's (DTF) Commercial team to seek a suitable sale or transfer plan.

During this process, the surplus asset does not transfer to DTF, rather, it remains an asset of the entity that continues to be recognised in their financial statements. As a result, entities need to determine whether the surplus asset should be reclassified in accordance with relevant accounting standards.

Accounting Guidance

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* requires an entity to classify an asset as 'held for sale' only when its value (i.e. its carrying amount) will be recovered principally through the sale of the asset rather than its continuing use.

For this to be the case, the asset must be:

- available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; and
- the sale must be highly probable.

The standard requires both criteria to have been met before an entity can classify the asset as being 'held for sale' in their financial statements.

The attached checklist has been developed to help entities determine if the surplus asset meets the requirements to be reclassified as 'held for sale' under AASB 5.

Transfer of assets between public sector entities

AASB 5 does not address the disposal of assets outside of a commercial transaction. Therefore the standard **does not apply to:**

- the restructuring of administrative activities of government departments (i.e. machinery of government changes);
- the transfer of assets and liabilities between Victorian public sector entities; and
- lease arrangement.

Note that while the standard does not apply to the transfer of assets and liabilities between government entities, preparers should still work through the checklist as a means of documenting the rationale to support the conclusion that the asset does not meet the recognition criteria.

Checklist for preparers to assess if the surplus asset meets the recognition criteria of 'held for sale' under AASB 5

The objective of this checklist is to provide a structured approach for preparers to assess whether a surplus asset meet the requirements under AASB 5 to be reclassified as 'held for sale' and to document the assessment performed.

This checklist should be completed with reference to additional information provided on the next page.

Criteria 1: The asset must be available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets (AASB 5.7).

- | | | |
|----|--|--|
| 1. | Is the asset able to be sold in its present condition with no further remediation or refurbishment required? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 2. | Is the asset available for immediate sale, with no restrictions or reasons for the sale not to be executed? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 3. | Can the sale of the asset be performed under terms that are typical or usual for that particular asset? | <input type="checkbox"/> Yes <input type="checkbox"/> No |

Results of the assessment:

Criteria 1 has been satisfied when the entity has selected 'Yes' for all requirements above.

- All requirements** are satisfied: preparers can proceed to assessing the surplus asset against criteria 2 below.
- One or more requirements** are not satisfied: criteria 1 has not been met and the asset cannot be classified as 'held for sale'.

Criteria 2: The sale is highly probable (AASB 5.7, AASB 5.8).

- | | | |
|----|---|--|
| 4. | Has the relevant authority committed to a plan to sell the asset? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 5. | Is there an active programme in place to locate a buyer and complete the sale? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 6. | Has the asset been actively marketed for sale at a price that is reasonable with reference to the asset's current fair value? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 7. | Is the sale expected to be completed within one year from the date of classification? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 8. | Is there sufficient evidence that the entity remains committed to its plan to sell the asset? Do actions required to complete the sale indicate that it is unlikely that significant changes will be made to the plan or that plan will be withdrawn? | <input type="checkbox"/> Yes <input type="checkbox"/> No |

Results of the assessment:

Criteria 2 has been satisfied when the entity has selected 'Yes' for all requirements above.

- All requirements** are satisfied: the entity can classifying the surplus asset as 'held for sale' in their financial statements. Refer to the appendix for the accounting treatment prescribed by AASB 5.
- One or more requirements** are not satisfied: criteria 2 has not been met and the asset cannot be classified as 'held for sale'.

Additional information to support the checklist

It is important to note that under AASB 5, assets should not be reclassified as 'held for sale' until all the recognition requirements are met.

Assessment of criteria 1 – The asset must be available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets.

- **The asset must be available for immediate sale in its present condition**

An asset is considered to be available for immediate sale if the entity currently has the intention and ability to transfer the asset to a buyer in its present condition and there is no reason why the sale could not take place immediately.

Assets are **not** considered to be available for immediate sale if they:

- continue to be used for the entity's ongoing operations;
- will continue to be used to the end of their economic life before being abandoned or closed; and
- need to be refurbished, renovated or renewed to enhance their value prior to sale.

For example, where surplus land still requires an assessment for market readiness to be performed (i.e. assessed for rezoning or remediation), the asset would not be considered available for immediate sale in its present condition.

In addition, where an entity plans to renovate parts of a surplus building asset to increase its value prior to selling, even though the entity may already be actively searching for a buyer, due to the plans to renovate the building prior to sale, the surplus asset would not meet the recognition criteria.

- **Subject to terms that are usual and customary for sales of such assets**

Terms that are considered to be usual and customary for the sale of similar assets refer to circumstances or conditions that are unlikely to cause a delay in the sale being executed.

This includes exchanges of non-current assets that have commercial substance. A transaction has commercial substance when future cash flows are expected to change as a result of the transaction.

The exchange of an asset for the same asset is not a transaction that has commercial substance and does not meet the recognition criteria under AASB 5.

Assessment of criteria 2 – The sale is highly probable.

- **The relevant authority is committed to a plan to sell the asset**

The relevant level of authority is generally regarded as those persons with the authority and responsibility for planning, directing and controlling the activities of the entity.

For public sector assets, the appropriate level of authority at each level would be:

- for the State – Cabinet ministers;
- for departments – the relevant Portfolio minister(s); and
- for agencies – the governing Board.

Entities should ensure the relevant minister(s) or the governing Board has declared the asset as being 'surplus' to the entity and has approved the sale of the asset. Where there is no support or commitment from senior management for the sale, the sale would not be considered highly probable.

- **There is an active programme in place to locate a buyer and complete the sale**

An entity must be actively marketing the asset to locate a potential buyer and complete the sale plan. The entity therefore must be making its intention to sell known to third parties that may be interested in acquiring the asset.

For example, engaging a licenced real estate to attract interest from potential buyers would demonstrate that an active programme is in place to complete the sale.

- **The asset has been actively marketed for sale at a price that is reasonable to the asset's current fair value**

The entity must be actively marketing the asset at a selling price that is considered reasonable compared to its fair value.

- **The sale will be completed within one year from the date of classification, and there is sufficient evidence that the entity remains committed to its plan to sell the asset**

The sale of the asset should be completed within one year from the date the asset is classified as 'held for sale'.

Under AASB 5, the sale can be greater than one year if:

- there is evidence that the delay is caused by events that are beyond the entity's control (e.g. conditions imposed by an external party that is not the buyer); and
- the entity remains committed to its plan to sell the asset.

As an example, where the entity has entered into a contractual agreement with the buyer to sell surplus land in parcels phased over three years, this would not preclude the asset from meeting the recognition criteria.

Further examples are provided in the appendices of the accounting standard to demonstrate circumstances where the extension of the sale plan beyond one year does not prevent the asset from meeting the recognition criteria.

- **Do actions required to complete the sale indicate that it is unlikely significant changes will be made to the plan or that plan will be withdrawn?**

Actions taken by the entity to execute the selling plan, in addition to events that have occurred since the surplus asset was classified as 'held for sale', should indicate whether or not the sale of the asset is likely to occur according to plan.

In instances where there are indicators that significant changes to the selling plan will be necessary or if a withdrawal from the selling plan is likely, the sale should not be considered highly probable.

Accounting treatment

Recognition of 'held for sale' assets

Immediately **prior** to a surplus asset being classified as 'held for sale', the carrying amount of the asset should be revalued in accordance with the requirements of FRD 103G [pending] *Non-financial physical assets*.

The standard requires assets that meet the classification of 'held for sale' to be measured at the lower of its carrying amount and fair value, less any costs to sell the asset. Given the requirements of FRD 103G [pending], the majority of public sector assets should already be recorded at their fair value.

It is important to note **that assets 'held for sale' are no longer depreciated (or amortised) from the date of classification**, as the assets' economic benefit to the entity will be recovered through a sale rather than through continued use.

Costs to sell represent the incremental costs directly attributable to the disposal of an asset, excluding finance costs and any income tax expense.

When the sale is expected to occur beyond one year, the costs to sell should be measured at their present value. Any increase in the present value of the costs to sell that arise over time should be recognised as a financing cost in the statement of comprehensive income.

Disclosure of 'held for sale' assets

AASB 5 requires preparers to ensure information disclosed on the financial statements will enable users to evaluate the financial effects of 'held for sale' assets.

Entities should ensure:

- the 'held for sale' asset is presented separately from other current assets and liabilities on the balance sheet; and
- relevant note disclosures are included to describe the 'held for sale asset', the facts and circumstances of the sale, and any gain or loss recognised.

Note the 'held for sale' asset is presented as a current asset instead of a non-current asset as the entity intends to transfer the asset within 12 months, in accordance with AASB 101 *Presentation of Financial Statements* (paragraph 66).

In instances where an asset has been identified as being surplus to the entity's needs, but does not meet the requirements for reclassification as 'held for sale' under AASB 5, this may indicate that the asset is impaired. The entity should determine the asset's recoverable amount in accordance with AASB 136 *Impairment of Assets*.

APPENDIX 11: AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS AND AASB 1058 INCOME OF NOT-FOR-PROFIT ENTITIES – ASSESSMENT CHECKLIST – FOR NOT-FOR-PROFIT ENTITIES ONLY

Background

The Australian Accounting Standards Board (AASB) has published AASB 15 *Revenue from Contracts with Customers* to provide a single source of accounting requirements for revenue from contracts with customers.

At the same time, the AASB also reconsidered the current accounting requirements for government grants and other types of contributions contained within AASB 1004 *Contributions* that applied to the not-for-profit (NFP) entities.

In light of changes introduced by AASB 15, the AASB included an Australian implementation guidance for NFP entities for AASB 15; released AASB 1058 *Income for Not-For-Profit Entities*; and effectively restricted the remainder of AASB 1004 to government entities and contributions by owners in a public sector context.

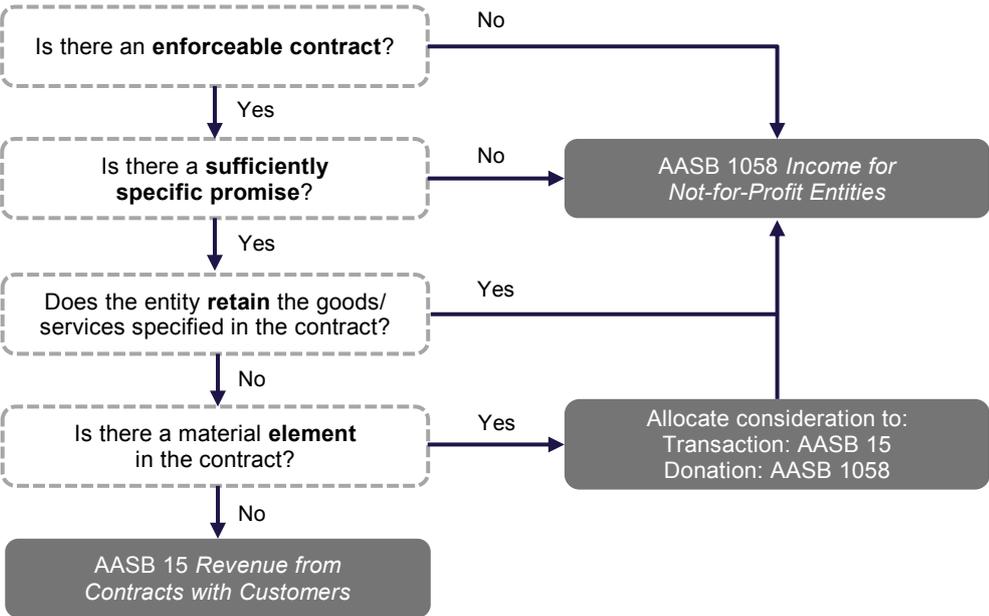
All NFP entities will need to review and assess whether the funding arrangement falls within the scope of AASB 15 or AASB 1058. This will require determining whether the arrangement is enforceable and the terms are sufficiently specific to qualify as performance obligations. **This will involve reviewing the terms and conditions of these arrangements in more detail to identify the existence of any performance obligations.**

Application Date

The new requirements apply to annual reporting periods beginning on or after 1 January 2019, so it will apply to:

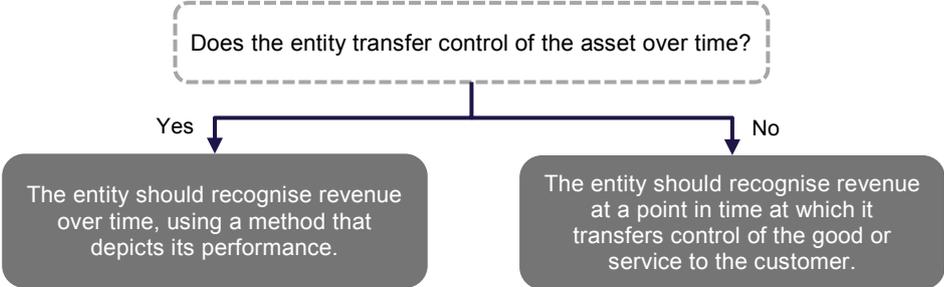
| Year-end reporters | Operative date applies to annual financial reporting period commencing | Comparative financial reporting period commencing | Reported in Budget publication |
|--------------------|--|---|--------------------------------|
| 31 December | 1 January 2019 [19/20] | 1 January 2018 [18/19] | 19/20 |
| 30 June | 1 July 2019 [19/20] | 1 July 2018 [18/19] | 19/20 |

Which Accounting Standard Applies



AASB 15 Revenue from contracts with customers

Principles of revenue recognition under AASB 15



AASB 15 Revenue from contracts with customers

This guidance assists NFP entities in determining whether particular transactions are caught within the scope of AASB 15 *Revenue from Contracts with Customers*, in particular in relation to identifying a contract and identifying performance obligations within a public sector context.

Criterion 1 – Identifying whether a contract with a customer exists

1. **Is there a customer?** Yes No

The 'customer' is the party that promises consideration in exchange for goods or services that are an output of the entity's ordinary activities. However, the customer can direct the goods or services to be provided to third-party beneficiaries (including individuals or the community at large) on the customer's behalf.

Provide your analysis below and maintain your supporting documentation

2. **Is there a contract or agreement between two or more parties that creates enforceable rights and obligations?**

- (a) Is there a contract or agreement? Yes No

The contract can be written, oral or implied by an entity's customary business practices in performing or conducting its activities.

Please provide details of the contract or agreement.

- (b) Is the agreement enforceable? Yes No

Can the contract be enforced through legal or an equivalent means?

Enforceability depends solely on the customer's capacity to enforce its rights.
Refer to additional information attached to support the completion of your assessment.

Provide your analysis below and maintain your supporting documentation

3. **Does the contract have any commercial substance?** Yes No

In a NFP entity context, contracts that have economic substance i.e. giving rise to substantive rights and obligations are considered to have commercial substance, notwithstanding these contracts may not generate a commercial return but may still cause a change in the risk, timing or amount of the not-for-profit future cash flows.

Provide your analysis below and maintain your supporting documentation

Assessment conclusion for criterion 1

Your entity will satisfy criterion 1 if you have an enforceable contract with a customer that has commercial substance.

Criterion 2 – Identifying whether a performance obligation exists

A condition necessary for identifying performance obligation of a NFP entity is that the promise is sufficiently specific to be able to determine when the obligation is satisfied. Judgement is necessary to assess whether a promise is sufficiently specific.

- 1 Do the activities include a transfer of goods and or services to the customer? Yes No

Provide your analysis below and maintain your supporting documentation

- 2 Is the promise sufficiently specific? Note that the conditions specified may be explicit or implicit in an agreement. Such judgement takes into account any conditions specified in the arrangement, whether explicit or implied, regarding the promised goods or services, including conditions regarding the following aspects:

- (a) Nature and type of goods and or services Yes No
 (b) Cost of value of the goods and or services Yes No
 (c) Quantity of the goods and or services Yes No
 (d) The period over which the goods and or services must be transferred. Yes No

Provide your analysis below and maintain your supporting documentation

- 3 Is there an acquittal process to demonstrate progress towards transferring goods and or services? Yes No

Provide your analysis below and maintain your supporting documentation

Assessment conclusion for criterion 2

Your entity will satisfy criterion 2 if the arrangement involves a transfer of goods and or services to the customer which is sufficiently specific and there is an acquittal process to demonstrate progress towards transferring goods and or services.

Criterion 3 – Allocating the transaction price to performance obligations

A customer may enter into a contract with a NFP entity with the dual purpose of obtaining goods or services and to help the NFP entity achieve its objectives.

The NFP entity shall allocate the transaction price to each performance obligation so the allocations depict the amount of consideration the entity expects to be entitled in exchange for transferring the promised goods or services to the customer. This is based on the rebuttable presumption that the transaction price is treated as wholly related to the transfer of promised goods or services.

Where the presumption is rebuttable and the transaction price is partially refundable in the event the entity does not deliver the promised goods or services, the entity shall disaggregate the transaction price and account for the promised goods or services in accordance with AASB 15. The remainder of the transaction price shall be accounted for in accordance with AASB 1058 *Income of Not-for-Profit Entities*.

The following may be indicative of an element not related to the promised goods or services (and more likely to be for the purpose of enabling the NFP entity to further its objectives and be accounted for in accordance with AASB 1058):

- 1 Is there a non-refundable component in the transaction price Yes No
Provide your analysis below and maintain your supporting documentation

- 2 Does the entity have the status of a deductible gift recipient and the donor can claim part of the transaction price as a tax deduction for a donation. Yes No
Provide your analysis below and maintain your supporting documentation

Assessment conclusion for criterion 3

If your entity has identified that there is a non-refundable component and/or the entity has the status of a deductible gift recipient, you must allocate the transaction price separately for the promised goods and/or services. The remainder of the transaction price shall be accounted for in accordance with AASB 1058.

Additional information to support the completion of the AASB 15 assessment checklist**Enforceability of a contract or agreement [Criterion 1, Q.2]**

An agreement is enforceable when the other party is able to enforce it through legal or equivalent means. For an agreement to be enforceable through 'equivalent means', the presence of a mechanism outside the legal system that establishes the right of a separate party to oblige the entity to act in a particular way or be subject to consequence is required.

Agreements that lack elements of a contract may become legally enforceable if there is conduct by one party that causes the other party to act in reliance on such conduct. The enforceability of the agreements does not depend on their form. Even though the customer may choose not to enforce its rights, this does not affect the enforceability of the customer's rights. **Enforceability depends solely on the customer's capacity to enforce its rights.**

In the public sector context, enforceable mechanisms may also arise from administrative arrangements or statutory provisions. This may include a directive given by a Minister or government department to a public sector entity controlled by the government to which the Minister or government department belongs.

However, it should be noted that a transferor having the capacity to withhold future funding to which the entity is not presently entitled to does not constitute enforceability. This is in contrast to a transferor who presently holds refund rights, or has the capacity to impose severe penalty in the event of the transferee's non-performance, but may choose to obtain such a refund or impose a penalty by deducting the amount of refund or penalty from a future transfer to the entity.

AASB 1058 *Income of not-for-profit entities*

Where a NFP entity:

- agrees to provide goods or services that are not as part of an enforceable arrangement; or
- makes general promises that are not stated in sufficient detail to be able to determine when they are satisfied,

then any inflows related to the arrangement would not give rise to revenue from a contract with customer under AASB 15. Instead such inflows would be accounted for under AASB 1058.

Examples include:

- cash and other assets received from grants;
- bequests or donations;
- receipts or appropriations by government departments and other public sector bodies;
- receipts of taxes, rates or fines; and
- assets acquired for nominal or low amounts.

A NFP entity would apply AASB 1058 to:

- (a) transactions where the consideration paid to acquire an assets is significantly less than fair value of that asset principally to enable the NFP entity to further its objectives; and
- (b) the receipt of volunteer services.

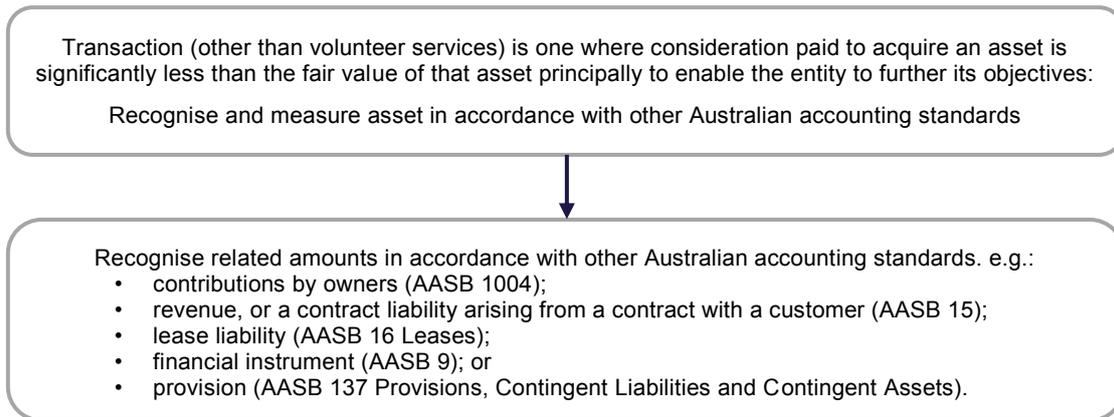
Where a NFP entity receives an asset for significant less than fair value principally to enable the entity to further its objectives, it recognises the asset in accordance with the relevant accounting standard. The entity then considers the relevant accounting standard that applies to the other side of the entry (called the related amount), which could be:

- contributions by owners (AASB 1004 *Contributions*);
- revenue or contract liability (AASB 15);
- a lease liability (AASB 16);
- a financial instrument (AASB 9); or
- a provision (AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*).

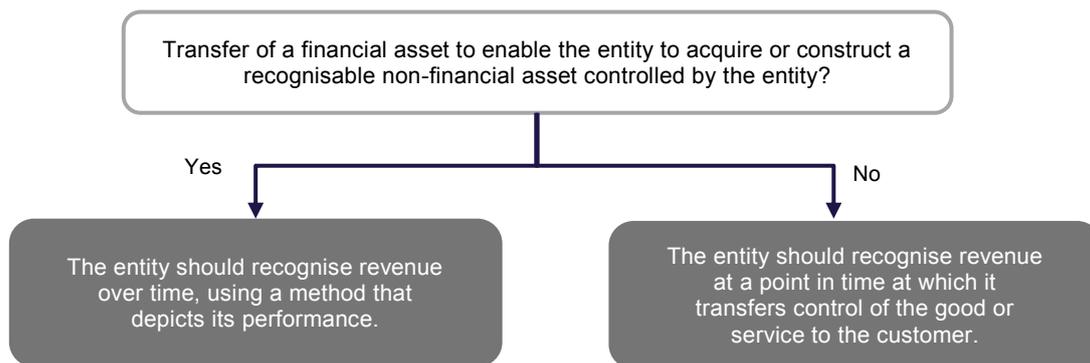
The difference (if any) between the consideration transferred for the asset and the fair value of the asset received after recording the 'related amounts' is recognised as income.

Principles of AASB 1058 income for not-for-profit entities

AASB 1058 operates on a residual basis, whereby entities should first apply other applicable Australian Accounting Standards to a transaction before recognising income in accordance with AASB 1058.



Revenue recognition for transfers of a financial asset to acquire/construct a recognisable non-financial asset



AASB 1058 income for not-for profit entities

AASB 1058 applies to transactions (other than volunteer services) where the consideration paid to acquire an asset is significantly less than the fair value of that asset principally to enable the entity to further its objectives. This guidance assists NFP entities in identifying the grants that would need to be **accounted differently** under AASB 1058 i.e. recognition of grant revenue over time or at a later point in time.

Consideration paid to acquire an asset is significantly less than fair value of that asset principally to enable the entity to further its objectives

In order to determine whether this criterion is met, the entity should consider whether another entity would have obtained the asset under the same terms and conditions. If not, it is more likely that the transaction is principally to enable the entity to further its objectives.

1. General assistance grant funding [no change]

Some general revenue assistance allows funds to be used by a public sector entity for any purpose. Such arrangements are unlikely to meet the 'sufficiently specific' criteria in the standard. Accordingly, these arrangements will generally be accounted for under AASB 1058 as income recognised when the entity obtains control of the cash, which is broadly consistent with current practice.

Assessment conclusion

The expectation is that there will be no change to the accounting recognition of general grant funding unless it meets the sufficiently specific and enforceable criteria under specific purpose grant funding. As a result, income will be recognised when the entity obtains control of the cash, which is broadly consistent with current practice.

2. Specific purpose grant funding [change in limited circumstances]

Specific purpose funding arrangements require funds to be used for agreed objectives, outcomes, outputs and performance benchmarks and milestones related to the delivery of specific projects.

These terms **may** meet the 'sufficiently specific' criteria.

In addition, where these arrangements are 'enforceable' through legal or equivalent means, and related to the delivery of goods or services, they would generally be expected to be accounted for in accordance with AASB 15.

1. Does the entity retain the goods and or services specified in the contract? Yes No

Provide your analysis below and maintain your supporting documentation

2. Is the performance obligation for funding sufficiently specific to be measured?

- (a) Nature and type of goods and or services Yes No
 (b) Cost of value of the goods and or services Yes No
 (c) Quantity of the goods and or services Yes No
 (d) The period over which the goods and or services must be delivered. Yes No

Provide your analysis below and maintain your supporting documentation

3. Is there an acquittal process to demonstrate progress towards transferring the goods and or services? Yes No

Provide your analysis below and maintain your supporting documentation

Assessment conclusion

The expectation is that there will only be a change to the accounting recognition of specific purpose grant funding where it meets the sufficiently specific and enforceable criteria. As a result, income will be deferred and recognised only on satisfaction of the performance obligation.

Where the specific purpose grant funding does not meet the sufficiently specific and enforceable criteria, income will be recognised when the entity controls the cash, which is broadly consistent with the current recognition on receipt.

3. Capital grants for the construction or acquisition of non-financial assets

A transfer of a financial asset to enable the entity to acquire or construct a recognisable non-financial asset controlled by the entity is one that:

- requires the entity to use that financial asset to acquire or construct a recognisable non-financial asset to identified specifications;
- does not require the entity to transfer the non-financial asset to the transferor or other parties; and
- occurs under an enforceable agreement.

1. Is the capital grant for the construction or acquisition of non-financial assets that are recognisable under Australian Accounting Standards? Yes No

Provide your analysis below and maintain your supporting documentation

Assessment conclusion

The expectation is that there will be a change to the accounting recognition of capital grant funding income will only be recognised upon satisfaction of the performance obligation. In circumstances where the asset cannot be recognised under Australian Accounting Standards, then income will be recognised immediately upon receipt consistent with current practice.

4. Donations

The standard includes a rebuttable presumption that the total transaction price in a contract with a customer is related to the transfer of the promised goods or services. This means that a NFP entity is not required to identify or recognise separately the donation component in a contract with a customer.

This presumption can be rebutted and the transaction price split into its component parts when the transaction price is only partially related to the transfer of the promised goods or services. The following may be indicative of an element that is not related to the promised goods or services:

- a non-refundable component of the transaction price; and
- where the entity has the status of a deductible gift recipient (DGR) – the donor can claim part of the transaction price as a tax deduction for a donation.

1. Is there a non-refundable component in the transaction price? Yes No

Provide your analysis below and maintain your supporting documentation

2. Does the entity have the status of a deductible gift recipient and the donor can claim part of the transaction price as a tax deduction for a donation? Yes No

Provide your analysis below and maintain your supporting documentation

Assessment conclusion

If your entity has identified that there is a non-refundable component and/or the entity has the status of a deductible gift recipient, you must allocate the transaction price separately for the promised goods and/or services. The remainder of the transaction price shall be accounted for in accordance with AASB 1058.

5. Volunteer services [no change]

An accounting policy choice is provided in relation to volunteer services.

- Where volunteer services can be reliably measured, an entity can elect to recognise the fair value of these services as an asset or expense.
- Local governments, government departments, general government sectors and whole of government are expected to recognise volunteer services if they would have been purchased had they not been donated and the fair value can be reliably measured.

The standard also encourages, but does not require, disclosure where NFP entities are dependent on volunteers.

Assessment conclusion

The expectation is that there will be no change to the accounting recognition of volunteer services.

Additional information for accounting for specific purpose and capital grants

Specific purpose grant funding

Under AASB 15, where the funding is paid in advance of the provision of goods and services, this would give rise to a contract liability, which is recognised as income when the entity satisfies the performance obligations under the arrangement. Where funding is paid in arrears, and is not purely contingent on time, it may give rise to a contract asset reflecting a right to consideration for goods and services transferred.

It is important to note that even if the arrangement meets the 'sufficiently specific' criteria, where the arrangement is not enforceable, it will be required to be accounted under AASB 1058 as income recognised when the entity controls the cash, which is broadly consistent with the current recognition on receipt.

Capital grants for the construction or acquisition of non-financial assets

Where the NFP entity receives a grant to construct a building to be controlled by the entity, the funds are initially recognised as a financial asset (cash) with a corresponding liability (obligation to build the building.) Subsequently, the liability is derecognised as the performance obligation is satisfied over time i.e. as the construction of the building is completed. In other situations, the agreement may be the granting of cash to purchase specific assets. Under such arrangements, the income would be recognised at the point in time when the assets are purchased. This differs to the current requirements under AASB 1004, where the funding would be recognised as income immediately upon receipt.

If an asset cannot be recognised under Australian Accounting Standards, for example, cash is received for research, which is unable to be recognised as an asset under AASB 138 *Intangible Assets*, and then the relevant consideration would be recognised as income immediately.

Under these circumstances, in the event of a default or where a breach of the agreement has occurred or is expected to occur, and there is a requirement to return the funds due to the breach, a liability would then be recognised.

Transition

There are three main ways to transition to AASB 15 and AASB 1058

| Approach | Comparative period | First year of adoption | Date of equity adjustment | |
|--|--------------------------------|------------------------|---------------------------|------------------|
| | | | 31 Dec year end | 30 June year end |
| Retrospective – no practical expedient | AASB 15 and AASB 1058* | AASB 15 and AASB 1058 | 1 January 2018 | 1 July 2018 |
| Retrospective – with practical expedient | AASB 15 and Mixed requirements | AASB 15 and AASB 1058 | 1 January 2018 | 1 July 2018 |
| Cumulative effect | AASB 118 and AASB 1004 | AASB 15 and AASB 1058 | 1 January 2019 | 1 July 2019 |

* An entity can elect not to measure certain assets at fair value where the full retrospective method is applied – see practical expedients below.

Under the partial retrospective method, the new standard is applied retrospectively but an entity may elect to use one or more of the practical expedients set out below.

Where the cumulative effect approach is taken, an entity also needs to disclose revenue amounts that would have been presented under AASB 118 and AASB 1004 respectively.

A completed contract is a contract or transaction for which the entity has recognised all the income in accordance with AASB 118 *Revenue* and AASB 1004 *Contributions* respectively.

AASB 15

DTF proposes the State adopt the retrospective method in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and use the following practical expedients to reduce the initial adoption burden. These include:

- For completed contracts, no restatement is required of contracts that begin and complete in the same annual reporting period.
- For all reporting periods presented before the date of initial application, the entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

AASB 1058

Similarly, DTF proposes the State adopt the retrospective method in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and use the following practical expedients to reduce the initial adoption burden. These include:

- For completed contracts, no restatement is required of contracts that begin and complete in the same annual reporting period.
- For completed contracts at the beginning of the earliest period presented, there is an exemption from applying AASB 1058 retrospectively.
- Assets acquired for consideration that was significantly less than fair value principally to enable the entity to further its objectives that was previously measured at significantly less than fair value, will not be required to be remeasured at fair value.
- As AASB 1058 will be applied at the same time as the transition to AASB 16, the transition requirements of the standard will be applied for leases significantly below market value as follows:

A NFP entity may have a lease arrangement that at inception had significantly below-market terms and conditions principally to further its objectives.

Operating leases

For operating leases, AASB 16 will require the right-of-use asset relating to the operating lease to be measured at fair value at the date of initial application of AASB 16.

On initial application of AASB 16, the lease liability is measured in accordance with AASB 16, any related amounts recognised in accordance with other Australian accounting standards (as required by AASB 1058.9), and any income arising as an adjustment to the opening balance of retained earnings or other component of equity as appropriate.

Finance leases

Presently, NFP entities account for below market leases that are finance leases by measuring the leased asset and lease liability at present value of the minimum lease payments which results in a negligible amount. Under the new requirements of AASB 1058 and AASB 16 *Leases*, such leased assets will be measured at fair value at the inception of the lease whereas the lease liability will be recognised at the present value of peppercorn lease payment amounts. The difference between the lease asset and liability will be recorded as income under AASB 1058.

On the initial application of AASB 16 for finance leases, the entity is not required to remeasure the leased asset to fair value again on adoption of AASB 16. The transition rules essentially grandfather existing below market leases until AASB 16 applies. The practical implication of this is that NFP entities with peppercorn lease arrangements will not be required to change their current lease arrangements until AASB 16 become effective. Leases recognised on transition to AASB 16 and new leases entered into thereafter, will result in the off-market component of the lease arrangement being recognised immediately in the income statement.

Implications for noting

As a result, NFP entities will need to assess their lease contracts, assess fair value of those assets and recognise any implied off-market amounts as income immediately (subject to the transition relief). This will impact a NFP entity's results both initially and on an ongoing basis (due to higher depreciation expense on leased assets).

APPENDIX 12: AASB 9 FINANCIAL INSTRUMENTS – ASSESSMENT CHECKLIST

Background

AASB 9 (2014) will supersede previous versions of AASB 9 and AASB 139 Financial Instruments: Recognition and Measurement and will apply to annual reporting periods beginning on or after 1 January 2018.

Accounting Guidance

The main changes relevant for the public sector are as follows:

- Recognition and measurement classification categories are reduced from four to two. Financial instruments will now be measured at amortised cost or fair value. Within the fair value measurement classification, the financial instrument can either be recognised at Fair Value Through other comprehensive income (FVTOCI) or fair value through the profit and loss (FVTPL).
- FVTOCI will be limited to equity instruments that are not held for trading and the option to measure the FVTOCI must be elected, otherwise they will be measured FVTPL.
- The approach to classification is based on an entity's business model and the nature of their cash flows. A change in business model allows for a reclassification of financial instruments, which is less restricted than the previous AASB 139 standard.
- To qualify for amortised cost, a financial asset must be held to collect its contractual cash flows and these cash flows represent solely payments of principal and interest (SPPI). Businesses that provide loans would be able to continue measuring these assets at amortised cost. If the financial asset is bought and sold, other than to be held to collect its contractual cash flows, they must be measured at FVTOCI.
- Derivatives are measured at FVTPL. However, identifying and separating embedded derivatives is no longer required under AASB 9.
- One of the most significant changes arising from the new standard relates to the recognition of impairment losses. The standard introduces an expected credit loss (ECL) impairment model, which will result in an earlier recognition of credit losses. Note that we currently recognise impairment on an incurred loss model where an impairment is only recognised on the occurrence of a credit event (i.e. a payment being overdue). Instead the ECL model is forward looking and no longer requires a credit event to have occurred before credit losses are recognised as the model effectively requires 'general doubtful debt provisions' to be recognised based on the likelihood of a receivable going 'bad'.

In short, the two key differences for receivables under AASB 139 and AASB 9 are:

- the entity does not wait until the receivable is past due before a provision is raised; and
- the amount of credit loss recognised is based on forward looking estimates that reflect current and forecast credit conditions.

The standard introduces a three-stage approach to be undertaken for the assessment for impairment.

After initial recognition of a financial asset, the three-stage model applies as follows:

- Stage 1: credit risk has not increased significantly since initial recognition – recognise 12 months of ECL.
- Stage 2: credit risk has increased significantly since initial recognition – recognise lifetime ECL and interest is presented on a gross basis.
- Stage 3: financial asset is credit impaired (using the criteria currently included in AASB 139) – recognise lifetime expected losses but present interest on a net basis (i.e. gross carrying amount less credit allowance).

simplification of hedge accounting rules and aligning it with how an entity manages risk. The three types of hedge relationships: cash-flow, fair value and net investment hedge remain the same.

Classification Table

As a guide the changes from AASB 139 to AASB 9 may be summarised as per the tables below. These tables should be used as a guide only and note there will always be exceptions. We advise each transaction be analysed on a case by case basis.

Financial assets

| AASB 139 Classifications | AASB 9 Classifications |
|--------------------------|--|
| Loans and receivables | Amortised Cost |
| FVTPL – Designated FVTPL | FVTPL – Designated FVTPL (irrevocable) |
| FVTPL – Held for Trading | FVTOCI |
| Held to Maturity | FVTPL/FVTOCI |
| Available for sale | FVTOCI (Potential for FVTPL) |

Financial liabilities

| AASB 139 Classifications | AASB 9 Classifications |
|--------------------------|--|
| Amortised Cost | Amortised Cost |
| FVTPL – Designated FVTPL | FVTPL – Designated FVTPL (irrevocable) |
| FVTPL – Held for Trading | FVTPL |
| Derivatives | FVTPL |
| Contingent consideration | FVTPL |

The transitional impacts to both the Operating Statement and Balance Sheet may be summarised as per attached.

APPENDIX 13: AASB 16 LEASES – ASSESSMENT CHECKLIST

Background:

AASB 16 *Leases* will supersede the existing AASB 117 *Leases* standard. The effective date is for annual reporting periods beginning on or after 1 January 2019 (the 2019-20 reporting period).

Accounting guidance:

The main changes relevant to public sector report are:

- AASB 16 keeps the same accounting principles for lessors as in AASB 117.
- However, AASB 16 eliminates the differentiation between operating and finance leases from the lessee's perspective by introducing a single lessee accounting model.
- Under this model, the lessee recognises most operating leases on balance sheet, with short-term leases less than 12 months and low value leases as the only exemptions. Lessees will have to account for most leases in a manner similar to how finance leases are currently treated under AASB 117, recognising a right-of-use asset and a lease liability at the lease commencement date, and depreciating the asset and amortising the liability over the lease period.
- However, Government Finance Statistics (GFS) distinguish leases between operating and finance leases based on whether there is a transfer of risks incidental to ownership of the underlying leased asset. Therefore, the new lessee model would introduce differences between GFS and Australian Accounting Standards in the recognition, measurement and classification of leases. The differences would need to be disclosed in a reconciliation note to the financial statements with an explanation of the difference as required by AASB 1049 *Whole of Government and General Sector Financial Reporting*. Therefore, entities may need to keep a set of records separate from the accounting record for the data feed to DTF to meet the whole of government GFS disclosure requirements.

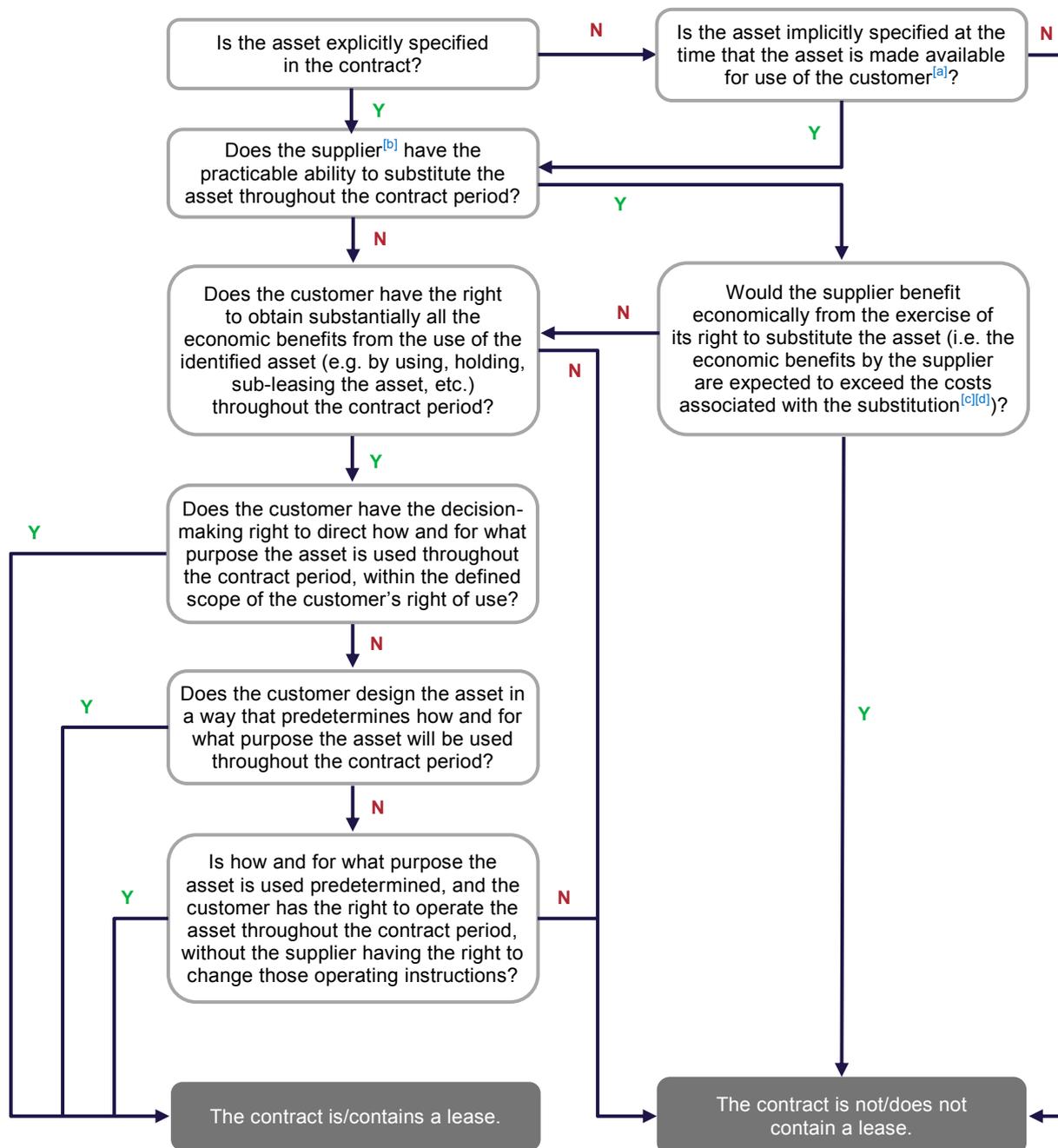
In summary, in applying the new standard, a lessee will:

- recognise all lease assets and lease liabilities (except minor leases with lease periods less than 12 months and low value items) on the balance sheet, which will increase net debt;
- cease to recognise operating lease expense but recognise depreciation of lease assets and interest on lease liabilities in the income statement, which is expected to have a marginal impact on the operating surplus; and
- present the amounts of cash paid for the principal portion of the lease liability within financing activities, and the amount paid for the interest portion within the operating activities in the cash flow statement.

AASB 16 Leases – Principles of lease recognition under AASB 16 (flowchart)

The flowchart provides guidance on the assessment of the existence of a lease.

Assessment of the existence of a lease



Notes:

[a] The customer refers to the customer of the asset/service. It is potentially the lessee, if the assessment indicates that the lease is/contains a lease.

[b] The supplier refers to the supplier of the asset/service. It is potentially the lessor, if the assessment indicates that the lease is/contains a lease.

[c] If the asset is located at the entity's premises or elsewhere, the substitution costs are generally higher than when located at the supplier's premises and, therefore, are more likely to exceed the benefits associated with substituting the asset, unless there is evidence otherwise.

[d] If the entity cannot readily determine whether the supplier has a substantive substitution right, the entity shall presume that any substitution right is not substantive.

AASB 16 guidance/assessment of the existence of a lease

DTF has developed a preliminary checklist to assist entities with determining whether particular transactions are caught within the scope of AASB 16.

Entity name:

Entity as a potential:

Contract under assessment:

Assessment date (contract inception date):

Note: As the conclusion for the existence of a lease is only valid if answers to Questions 1, 2 and 3 are all 'Y', the entity does not have to proceed to Question 2 if the answer to Question 1 is 'N' and to Question 3 if the answer to Question 2 is 'N'.

| Assessment questions | Assessments | Conclusions | Assessment notes |
|--|-------------|-------------|------------------|
| 1 Is there an identified asset in the contract? | | | |
| (a) Is the leased asset identifiable? | | | |
| Is the asset explicitly specified in the contract? | Y | | |
| Is the asset implicitly specified at the time that the asset is made available for use of the entity? | N | | |
| (b) Does the supplier have the substantive right to substitute the asset? | | | |
| Does the supplier have the practicable ability to substitute the asset throughout the contract period? | Y | | |
| Would the supplier benefit economically from the exercise of its right to substitute the asset (i.e. the economic benefits by the supplier are expected to exceed the costs associated with the substitution ^{[1][2]})? | N | | |
| Conclusion for 1: There is an identified asset in the contract. | | Y | |
| 2 Does the entity have the right to obtain substantially all of the economic benefits from the use of the identified asset (e.g. by using, holding, sub-leasing the asset, etc.) throughout the contract period? | Y | | |
| Conclusion for 2: The entity has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the contract period. | | Y | |
| 3 Does the entity have the right to direct the use of the identified asset throughout the contract period? | | | |
| (a) Does the entity have the decision-making right to direct how and for what purpose the asset is used throughout the contract period, within the defined scope of the entity's right of use? (The decision making right includes, but not limited to, the right to change the type of output produced by the asset, when, where and whether the output is produced.) | Y | | |
| (b) Does the entity design the asset in a way that predetermines how and for what purpose the asset will be used throughout the contract period? | N | | |
| (c) Is how and for what purpose the asset is used predetermined and the entity has the right to operate the asset throughout the contract period, without the supplier having the right to change those operating instructions? | N | | |
| Conclusion for 3: The entity has the right to direct the use of the identified asset throughout the contract period. | | Y | |
| Final conclusion: | | | |
| The contract is/contains a lease. | | Y | |

Notes:

- (1) If the asset is located at the entity's premises or elsewhere, the substitution costs are generally higher than when located at the supplier's premises and therefore, are more likely to exceed the benefits associated with substituting the asset, unless there is evidence otherwise.
- (2) If the entity cannot readily determine whether the supplier has a substantive substitution right, the entity shall presume that any substitution right is not substantive.

Example 1: AASB 16 guidance/assessment of the existence of a lease

Customer: Department of Treasury and Finance

Supplier: ABC Management

Lease period: 36 months starting from 1 Jan 2018, signed off by both parties on 1 July 2017

Lease object: 1pm to 5pm every Monday of a meeting room on 1 Spring Street, which meets the facility and capacity requirements as specified in the contract.

Other information: The lessor has a few meeting rooms on 1 Spring Street, which meets the facility and capacity requirements as specified in the contract. The lessor usually reserve Room A for the lessee. The contract does not restrict how the lessee is using the room, as far as the activities are legal and do not impair the conditions of the room.

Entity name: Department of Treasury and Finance

Entity as a potential: Lessee

Contract under assessment: Meeting room on 1 Spring Street

Assessment date (contract inception date): 1 July 2017

| Assessment questions | Assessments | Conclusions | Assessment notes | What if? |
|--|-------------|-------------|---|--|
| 1 Is there an identified asset in the contract? | | | | |
| (a) Is the leased asset identifiable? | | | | |
| (i) Is the asset explicitly specified in the contract? | N | | The contract specifies the requirements (the capacity and facility) of the room, however, it doesn't specify a particular room. | The assessment outcome would be a 'Y' if the contract specifies the room, e.g. Room 903. |
| (ii) Is the asset implicitly specified at the time that the asset is made available for use of the entity? | Y | | ABC management usually reserves Room A for the lessee. It is identifiable when the room is made available for use to the lessee. | The assessment outcome would be a 'N' if in practice the supplier often offers different rooms to the entity, dependent on which rooms are available. |
| (b) Does the supplier have the substantive right to substitute the asset? | | | | |
| (i) Does the supplier have the practicable ability to substitute the asset throughout the contract period? | Y | | ABC Management has more than one room that meets the criteria specified in the contract. The fact that ABC management habitually reserves Room A for the entity does not rule out its practicable ability to substitute Room A with another room that meets the capacity and facility criteria. | The assessment outcome would be a 'N' if Room A is the only room the supplier has on 1 Spring Street that meets the capacity and facility criteria specified in the contract. |
| (ii) Would the supplier benefit economically from the exercise of its right to substitute the asset (i.e. the economic benefits by the supplier are expected to exceed the costs associated with the substitution ^{[1][2]})? | Y | | ABC management will benefit from the substitution if another entity offers a higher price for Room A. The substitution would incur minimal cost for ABC management as it is on ABC management's premise. | The assessment outcome would be a 'N' if the substitution would incur the supplier costs higher than the benefits, e.g. the entity has incurred substantial costs on Room A for leasehold improvement and the contract specifies that the supplier would need to compensate the entity for the costs if it asks the lessee to move room once the contract commences. |

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| Assessment questions | Assessments | Conclusions | Assessment notes | What if? |
|--|-------------|-------------|---|----------|
| Conclusion for 1: There is an identified asset in the contract. | | N | | |
| 2 Does the entity have the right to obtain substantially all of the economic benefits from the use of the identified asset (e.g. by using, holding, sub-leasing the asset, etc.) throughout the contract period? | Y | | The entity has the right to obtain all of the benefits from using Room A during the lease period as it has exclusive access to it when holding it and is entitled to any benefits from it. | |
| Conclusion for 2: The entity has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the contract period. | | Y | | |
| 3 Does the entity have the right to direct the use of the identified asset throughout the contract period? | | | | |
| (a) Does the entity have the decision-making right to direct how and for what purpose the asset is used throughout the contract period, within the defined scope of the entity's right of use? (The decision making right includes, but not limited to, the right to change the type of output produced by the asset, when, where and whether the output is produced/) | Y | | The entity can direct the use of the room because the contract does not restrict how the entity is using the room, as far as the activities are legal and do not impair the conditions of the room. | |
| (b) Does the entity design the asset in a way that predetermines how and for what purpose the asset will be used throughout the contract period? | N | | The room is a standard asset and the entity is not involved in the design. | |
| (c) Is how and for what purpose the asset is used predetermined and the entity has the right to operate the asset throughout the contract period, without the supplier having the right to change those operating instructions? | N | | How and for what purpose the asset is used is not predetermined. | |
| Conclusion for 3: The entity has the right to direct the use of the identified asset throughout the contract period. | | Y | | |
| Final conclusion: | | | | |
| The contract is/contains a lease. | | N | | |

Example 2: AASB 16 guidance/assessment of the existence of a lease

Customer: Department of Treasury and Finance

Supplier: XYZ Lease Management

Lease period: 36 months starting from 1 Jan 2018, signed off by both parties on 1 July 2017

Lease object: Printing service charged based on the volume of the activities with a unit price determined in the contract. The lessee also provide weekly maintenance service for the printer and charge \$200 a month.

Other info: The lessor has a few meeting rooms on 1 Spring Street which meets the facility and capacity requirements as specified in the contract. The lessor usually reserve Room A for the lessee. The contract does not restrict how the lessee is using the room, as far as the activities are legal and do not impair the conditions of the room.

Entity name: Department of Treasury and Finance

Entity as a potential: Lessee

Contract under assessment: Contract under assessment

Assessment date (contract inception date): 1 July 2017

| Assessment questions | Assessments | Conclusions | Assessment notes | What if? |
|---|-------------|-------------|---|---|
| 1 Is there an identified asset in the contract? | | | | |
| (a) Is the leased asset identifiable? | | | | |
| (i) Is the asset explicitly specified in the contract? | Y | | The specifications of the printer is specified in the contract and this is an asset specially designed and produced based on the customer's requirements. Therefore, it can be considered that the asset is explicitly specified in the contract. | The assessment outcome would be a 'N' if the contract's specification can not determine a particular asset, e.g. it only specifies the brand of the printer. |
| (ii) Is the asset implicitly specified at the time that the asset is made available for use of the entity? | N | | The asset is explicitly rather than implicitly specified. | The assessment outcome would be a 'Y' if the contract does not specify a particular printer, however, it specifies that the lessor will not replace the printer once the printer is placed at the lessee's premise at the commencement of the contract. |
| Conclusion for 1 (a): The leased asset is identifiable. The answer would be 'Y' if EITHER (i) or (ii) is 'Y' | | | | |
| (b) Does the supplier have the substantive right to substitute the asset? | | | | |
| (i) Does the supplier have the practicable ability to substitute the asset throughout the contract period? | N | | The printer will be replaced only if there is a need for repair or maintenance. Therefore, the supplier does not have the substitution ability 'throughout the contract period'. | The assessment outcome would be a 'Y' if the contract does not preclude the supplier's flexibility to replace the printer with a different model at the supplier's discretion as far as the new printer can fulfil the specified service requirements. |

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| Assessment questions | Assessments | Conclusions | Assessment notes | What if? |
|---|-------------|-------------|---|----------|
| (ii) Would the supplier benefit economically from the exercise of its right to substitute the asset (i.e. the economic benefits by the supplier are expected to exceed the costs associated with the substitution[1][2])? | N | | The printer is specially designed and produced based on the customer's requirements, therefore, the costs associated with the substitution is expected to be higher than the benefits. | |
| Conclusion for 1: There is an identified asset in the contract. | | Y | | |
| 2 Does the entity have the right to obtain substantially all of the economic benefits from the use of the identified asset (e.g. by using, holding, sub-leasing the asset, etc.) throughout the contract period? | Y | | The entity has the exclusive access to the printer throughout the lease period and is entitled to all the benefits from using the printer during that period. | |
| Conclusion for 2: The entity has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the contract period. | | Y | | |
| 3 Does the entity have the right to direct the use of the identified asset throughout the contract period? | | | | |
| (a) Does the entity have the decision-making right to direct how and for what purpose the asset is used throughout the contract period, within the defined scope of the entity's right of use? (the decision making right includes, but not limited to, the right to change the type of output produced by the asset, when, where and whether the output is produced) | Y | | | |
| (b) Does the entity design the asset in a way that predetermines how and for what purpose the asset will be used throughout the contract period? | Y | | The asset is not an off-the-shelf product and customised for the entity's needs. | |
| (c) Is how and for what purpose the asset is used predetermined and the entity has the right to operate the asset throughout the contract period, without the supplier having the right to change those operating instructions? | Y | | The entity does not need further instructions and the supplier does not have the need/right to provide further instructions on top of the user manual from the manufacturer of the printer. | |
| Conclusion for 3: The entity has the right to direct the use of the identified asset throughout the contract period. | | Y | | |
| Final conclusion: | | | | |
| The contract is/contains a lease. | | Y | | |

Notes:

- (1) The entity refers to the entity making the assessment as a potential lessee.
- (2) The supplier refers to the supplier of the asset/service. It is potentially the lessor, if the assessment indicates that the lease is/contains a lease.
- (3) If the asset is located at the entity's premises or elsewhere, the substitution costs are generally higher than when located at the supplier's premises and therefore, are more likely to exceed the benefits associated with substituting the asset, unless there is evidence otherwise.
- (4) If the entity cannot readily determine whether the supplier has a substantive substitution right, the entity shall presume that any substitution right is not substantive.

APPENDIX 14: SUMMARY OF NEW/REVISED ACCOUNTING STANDARDS EFFECTIVE FOR CURRENT AND FUTURE REPORTING PERIODS

[\[Update up to 1 April 2018\]](#)

Current reporting period

The following accounting pronouncements effective from the 2017-18 reporting period are considered to have insignificant impacts on public sector reporting:

- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*
- AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities*
- AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*

Future reporting periods

The table below outlines the accounting pronouncements that have been issued but not effective for 2017-18, which may result in potential impacts on public sector reporting for future reporting periods.

| <i>Topic^(a)</i> | <i>Key requirements</i> | <i>Effective date</i> |
|---|--|--|
| <i>AASB 9 Financial Instruments</i> | The key changes introduced by AASB 9 include simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred. | 1 January 2018 |
| <i>AASB 2014-1 Amendments to Australian Accounting Standards [Part E Financial Instruments]</i> | Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018, and to amend Reduced Disclosure requirements. | 1 January 2018 |
| <i>AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9</i> | Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9. | 1 January 2018 |
| <i>AASB 15 Revenue from Contracts with Customers</i> | The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. Note that amending standard AASB 2015-8 <i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i> has deferred the effective date of AASB 15 to annual reporting periods beginning on or after 1 January 2018, instead of 1 January 2017. | 1 January 2018 |
| <i>AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15</i> | Amends the measurement of trade receivables and the recognition of dividends as follows: <ul style="list-style-type: none"> • Trade receivables, that do not have a significant financing component, are to be measured at their transaction price, at initial recognition. • Dividends are recognised in the profit and loss only when: <ul style="list-style-type: none"> ○ the entity's right to receive payment of the dividend is established; ○ it is probable that the economic benefits associated with the dividend will flow to the entity; and ○ the amount can be measured reliably. | 1 January 2018, except amendments to AASB 9 (Dec 2009) and AASB 9 (Dec 2010) apply 1 January 2018. |
| <i>AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15</i> | This standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018. | 1 January 2018 |
| <i>AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15</i> | This Standard amends AASB 15 to clarify requirements for identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: <ul style="list-style-type: none"> • a promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation; • for items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer; and • for licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access). | 1 January 2018 |
| <i>AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</i> | This standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019. | 1 January 2019 |
| <i>AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</i> | This Standard amends AASB 9 and AASB 15 to include requirements and implementation guidance to assist not-for-profit entities in applying the respective standards to particular transactions and events. The amendments: <ul style="list-style-type: none"> • require non-contractual receivable arising from statutory requirements (i.e. taxes, rates and fines) to be initially measured and recognised in accordance with AASB 9 as if those receivables are financial instruments; and • clarifies circumstances when a contract with a customer is within the scope of AASB 15. | 1 January 2019 |
| <i>AASB 16 Leases</i> | The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet which has an impact on net debt. | 1 January 2019 |

| Topic^(a) | Key requirements | Effective date |
|---|---|-----------------------|
| AASB 1058 <i>Income of Not-for-Profit Entities</i> | This standard will replace AASB 1004 <i>Contributions</i> and establishes principles for transactions that are not within the scope of AASB 15, where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives. The restructure of administrative arrangement will remain under AASB 1004. | 1 January 2019 |
| AASB 1059 <i>Service Concession Arrangements: Grantor</i> | This standard prescribes the accounting treatment of Public Private Partnership (PPP) arrangements involving a private sector operator providing public services related to a service concession asset on behalf of the State, for a specified period of time. For social infrastructure PPP arrangements, this would result in an earlier recognition of financial liabilities progressively over the construction period rather than at completion date. For economic infrastructure PPP arrangements, that were previously not on balance sheet, the standard will require recognition of these arrangements on-balance sheet. | 1 January 2019 |
| AASB 17 <i>Insurance Contracts</i> | The new Australian standard eliminates inconsistencies and weaknesses in existing practices by providing a single principle-based framework to account for all types of insurance contracts, including reissuance contract that an insurer holds. It also provides requirements for presentation and disclosure to enhance comparability between entities. This standard does not currently apply to not-for-profit public sector entities. The AASB is undertaking further outreach to determine the applicability of this standard to the not-for-profit public sector. | 1 January 2021 |

The following accounting pronouncements are also issued but not effective for the 2017-18 reporting period. At this stage, the preliminary assessment suggests they may have insignificant impacts on public sector reporting.

- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
- AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- AASB 2017-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 4*
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*
- AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*
- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*
- AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015 – 2017 Cycle*
- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendments, Curtailment or Settlement*

Notes:

- (a) For the current year, given the number of consequential amendments to AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*, the standards/interpretations have been grouped together to provide a more relevant view of the upcoming changes.

APPENDIX 15: AASB REPORTING REQUIREMENTS FOR FOR-PROFIT AND NOT-FOR-PROFIT ENTITIES IN THE VICTORIAN PUBLIC SECTOR

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The following table provides guidance on reporting requirements under Australian Accounting Standards applicable for for-profit entities (FP) and not-for-profit entities (NFP).

- ✓ Standard is applicable
- × Standard is not applicable
- NR Standard is applicable but is not relevant to the entity

| AASB | Description | For-profit | Not-for-profit |
|------|--|--|--|
| 1 | First-time Adoption of Australian Accounting Standards | ✓ | ✓ |
| 2 | Share-based Payment | NR | NR |
| 3 | Business Combinations | ✓ | ✓ |
| 4 | Insurance Contracts | ✓ | NR |
| 5 | Non-current Assets Held for Sale and Discontinued Operations | ✓ | ✓ |
| 6 | Exploration for and Evaluation of Mineral Resources | × | × |
| 7 | Financial Instruments: Disclosures | ✓ | ✓ |
| 8 | Operating Segments | × | × |
| 9 | Financial Instruments ¹⁶ | Applicable from reporting periods beginning on or after 1 January 2018. | |
| 10 | Consolidated Financial Statements | ✓ | ✓ |
| 11 | Joint Arrangements | ✓ | ✓ |
| 12 | Disclosure of Interests in Other Entities | ✓ | ✓ |
| 13 | Fair Value Measurement | ✓ | ✓ |
| 14 | Regulatory Deferral Accounts | NR | NR |
| 15 | Revenue from Contracts with Customers ¹⁷ | Applicable from reporting periods beginning on or after 1 January 2018. | Applicable from reporting periods beginning on or after 1 January 2019. |
| 16 | Leases ¹⁸ | Applicable from reporting periods beginning on or after 1 January 2019. | |
| 17 | Insurance Contract | ✓ | The AASB is reviewing to replace AASB 1023 and AASB 1038 with this standard. |
| 101 | Presentation of Financial Statements | ✓ | ✓ |
| 102 | Inventories | The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred. | Where inventories are acquired at no cost, or for nominal consideration, the cost shall be the current replacement cost as at the date of acquisition. |

¹⁶ AASB 9 *Financial Instruments* will supersede AASB 9 (2009), AASB 9 (2010) and AASB 139 *Financial Instruments: Recognition and Measurement* from 2018-19.

¹⁷ AASB 15 *Revenue from Contracts with Customers* will supersede AASB 111 *Construction Contract* and AASB 118 *Revenue* from 2018-19 for FP entities and 2019-20 for NFPF entities.

¹⁸ AASB 16 *Leases* will supersede AASB 117 *Leases* from 2019-2020.

| AASB | Description | For-profit | Not-for-profit |
|-------------------|--|---|--|
| 107 | Statement of Cash Flows | ✓ ¹⁹ | ✓ |
| 108 | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | ✓ |
| 110 | Events after the Reporting Period | ✓ | ✓ |
| 111 ²⁰ | Construction Contracts | ✓ | ✓ |
| 112 | Income Taxes | A deferred tax asset can arise on non-taxable government grant related to an asset. | A deferred tax asset does not arise on a non-taxable government grant related to an asset. |
| 116 | Property, Plant and Equipment | Revaluation increments and decrements are offset by individual asset. | Revaluation increments and decrements are offset by class of assets. |
| 117 | Leases ²¹ | ✓ | ✓ |
| 118 | Revenue ²² | ✓ | ✓ |
| 119 | Employee Benefits | Employee benefit obligations shall be determined using market yields on high quality corporate bonds. | Employee benefit obligations shall be determined using market yields on government bonds. |
| 120 | Accounting for Government Grants and Disclosure of Government Assistance | ✓ | x |
| 121 | The Effects of Changes in Foreign Exchange Rates | NR | NR |
| 123 | Borrowing Costs | ✓ | ✓ ²³ |
| 124 | Related Party Disclosures | ✓ | ✓ |
| 127 | Separate Financial Statements | ✓ | ✓ |
| 128 | Investments in Associates and Joint Ventures | ✓ | ✓ |
| 129 | Financial Reporting in Hyperinflationary Economies | NR | NR |
| 132 | Financial Instruments: Presentation | ✓ | ✓ |
| 133 | Earnings per Share | NR | NR |
| 134 | Interim Financial Reporting | ✓ | x |
| 136 | Impairment of Assets | Value in use is determined by the present value of future cash flows associated with asset. | Value in use shall be determined by current replacement cost. |
| | | Impairment loss on a revalued asset can be applied against revaluation reserve for the same asset. | Impairment loss on a revalued asset can be applied against revaluation reserve by class of assets. |
| 137 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | ✓ |
| 138 | Intangible Assets | Revaluation increments and decrements are offset by individual asset. | Revaluation increments and decrements are offset by class of assets. |

¹⁹ Treasury Corporation of Victoria report their cash flows on a net basis as it satisfies the criteria in AASB 107.22.

²⁰ AASB 111 *Construction Contract* will be superseded by AASB 15 from 2018-19 for FP entities and 2019-20 for NFP entities.

²¹ AASB 117 *Leases* will be superseded by AASB 16 *Leases* from 2019-20.

²² AASB 118 *Revenue* will be superseded by AASB 15 from 2018-19 for FP entities and 2019-20 for NFP entities.

²³ Under AASB 123 *Borrowing Costs*, NFP entities can elect to recognise borrowing cost as an expense regardless of how the borrowings are applied. However, FRD 105B *Borrowing costs* requires entities to expense all borrowing costs.

APPENDIX 15

| AASB | Description | For-profit | Not-for-profit |
|------|---|--|---|
| 139 | Financial Instruments: Recognition and Measurement ²⁴ | ✓ | ✓ |
| 140 | Investment Property | ✓ | ✓ |
| 141 | Agriculture | <p>Unconditional government grants are recognised in the profit and loss only when they become receivable.</p> <p>Conditional government grants are recognised in the profit and loss only when conditions attaching to the grant are met.</p> | Both unconditional and conditional ²⁵ government grants are recognised in the profit and loss on the receipt of the grant which is non-reciprocal. |
| 1004 | Contributions ²⁶ | NR | ✓ |
| 1023 | General Insurance Contracts | ✓ | ✓ ²⁷ |
| 1038 | Life Insurance Contracts | ✓ ²⁸ | ✗ ¹² |
| 1039 | Concise Financial Reports | ✗ | ✗ |
| 1048 | Interpretation of Standards | ✓ | ✓ |
| 1049 | Whole of Government and General Government Sector Financial Reporting | ✓ | ✓ |
| 1050 | Administered Items | NR | ✓ |
| 1051 | Land Under Roads | ✓ | ✓ |
| 1052 | Disaggregated Disclosures | ✓ | ✓ |
| 1053 | Application of Tiers of Australian Accounting Standards | ✓ | ✓ |
| 1054 | Australian Additional Disclosures | ✓ | ✓ |
| 1055 | Budgetary Reporting | ✗ | ✓ |
| 1056 | Superannuation Entities | ✗ | ✗ |
| 1057 | Application of Australian Accounting Standards | ✓ | ✓ |
| 1058 | Income of Not-for-Profit Entities | ✗ | Applicable from reporting periods beginning on or after 1 January 2019. |
| 1059 | Service Concession Arrangements: Grantors | ✗ | Applicable from reporting periods beginning on or after 1 January 2019. |

²⁴ AASB 9 *Financial Instruments* will supersede AASB 9 (2009), AASB 9 (2010) and AASB 139 *Financial Instruments: Recognition and Measurement* from 2018-19.

²⁵ From 2019-20, the treatment of unconditional grants related to a biological asset will fall under AASB 1058 and the conditional grants will fall under AASB 15. The recognition requirements for unconditional grants will be the same, however, conditional grants will be recognised as revenue when the performance obligations are satisfied.

²⁶ The majority of income recognition requirements in AASB 1004 will be superseded by AASB 15 and AASB 1058 from 2019-20. However, AASB 1004 will still retain the accounting requirements in relation to parliamentary appropriations by government departments, restructures of administrative arrangements for other government controlled NFP entities and contributions by owners and distributions to owners by Whole of government and local government.

²⁷ AASB is reviewing to replace AASB 1023 and AASB 1038 with AASB 17 standard.

²⁸ Applicable to FPs with life insurance contracts.

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