



# 2024-25 Model Report for Victorian Government Departments

Part two

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Model financial statements

# DEPARTMENT OF TECHNOLOGY – MODEL FINANCIAL STATEMENTS

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## How this report is structured

The Department of Technology (Department) presents its audited general-purpose financial statements for the financial year ended 30 June 20X2 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:

- 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]
- 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.

### 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
- 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]
- 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 20X2 and financial position of the Department at 30 June 20X2.

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 20X2.

.....

R McIvor

Chief Finance Officer  
Department of Technology

Melbourne  
14 August 20X2

.....

J Smith

Secretary  
Department of Technology

Melbourne  
14 August 20X2

### 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 the annual report of that government department or be presented in a way that enables it to be read in conjunction with it. 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, three signatures are required if the Accountable Officer or the CFO is not a member of the public body's board.

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. [SD 2.4.5]

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.

## 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) will 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 agency's ongoing operations should take on the responsibility for meeting the requirements of SD 5.2.2.

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 anyone 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:

- the financial statements present fairly the financial position, financial performance and cash flows of an entity [AASB 101.15]
  - 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. [AASB 101.17]
-

## **PLACEHOLDER FOR VAGO REPORT**

[please Insert your entity's audit report from VAGO]

**Comprehensive operating statement (a)**

For the financial year ended 30 June 20X2

(\$ thousand)

| Source reference   | Notes | 20X2            | 20X1            |
|--|-------|-----------------|-----------------|
| <b>Continuing operations</b>                                     |       |                 |                 |
| <b>Revenue and income from transactions</b>                      |       |                 |                 |
| AASB 101.82 (a)  |       |                 |                 |
| AASB 1058.26 (c)   | 2.2   | 85 535          | 63 682          |
| AASB 1058.26 (c)   | 2.2   | 8 128           | 11 396          |
| AASB 101.82 (a)  | 2.4.1 | 3 864           | 2 897           |
| AASB 101.82 (a)  | 2.4.2 | 1 779           | 1 346           |
| AASB 1058.26 (a)   | 2.4.3 | 288             | 255             |
| AASB 1058.26 (a)   | 2.4.4 | 1 589           | 1 708           |
| AASB 101.85  | 2.4.5 | 7 213           | 5 826           |
| <b>Total revenue and income from transactions</b>                |       | <b>108 396</b>  | <b>87 110</b>   |
| <b>Expenses from transactions</b>                                |       |                 |                 |
| AASB 101.99  | 3.1.1 | (13 767)        | (10 970)        |
| AASB 101.85  | 5.1.3 | (18 718)        | (13 358)        |
| AASB 101.85  | 7     | (6 548)         | (4 335)         |
| AASB 101.82 (b)  | 3     | (32 884)        | (43 040)        |
| AASB 101.82 (b)  | 3     | (16 328)        | (8 822)         |
| <b>Total expenses from transactions</b>                          |       | <b>(88 245)</b> | <b>(80 525)</b> |
| <b>Net result from transactions (net operating balance)</b>      |       | <b>20 151</b>   | <b>6 585</b>    |
| <b>Other economic flows included in net result</b>               |       |                 |                 |
| AASB 101.85-86   | 9     | (5 161)         | 1 805           |
| AASB 101.98 (c)  | 9     | (7 121)         | (3 971)         |
| AASB 101.82 (c)  | 9     | 1 286           | 1 397           |
|  | 9     | (2 895)         | (2 048)         |
| <b>Total other economic flows included in net result</b>         |       | <b>(13 891)</b> | <b>(2 817)</b>  |
| AASB 101.85  |       | <b>6 260</b>    | <b>3 768</b>    |
| AASB 5.33 (a)  | 9.3.3 | <b>1 230</b>    | <b>3 856</b>    |
| <b>Net result</b>  |       | <b>7 490</b>    | <b>7 624</b>    |
| <b>Other economic flows – other comprehensive income:</b>        |       |                 |                 |
| <b>Items that will not be reclassified to net result</b>         |       |                 |                 |
| AASB 101.82A (a)   | 9     | 7 403           | 2 825           |
| AASB 101.82A (b)   | 9     | 260             | 130             |
| AASB 128.39  |       |                 |                 |
| AASB 101.82A (a)   | 9     | 100             | ..              |
| AASB 101.7 (da)  |       |                 |                 |
|  | 9     | 30              | ..              |
| AASB 7.20 (a)(i)   |       |                 |                 |
| <b>Items that may be reclassified subsequently to net result</b> |       |                 |                 |
| AASB 7.20(a)(vii)  | 9     | ..              | ..              |
| AASB 101.7 (d)   |       |                 |                 |
| <b>Total other economic flows – other comprehensive income</b>   |       | <b>7 793</b>    | <b>2 955</b>    |
| AASB 101.8   |       | <b>15 283</b>   | <b>10 579</b>   |

The accompanying notes form part of these financial statements.

## Notes:

- (a) This format is aligned to AASB 1049 Whole of Government and General Government Sector Financial Reporting.
- (b) '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.
- (c) '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 at fair value through other comprehensive income revaluation surplus.
- (d) 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
- 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
- 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 either:

- will not be reclassified subsequently to profit or loss
- 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
- changes to the fair value of equity investments measured at fair value through other comprehensive income
- changes to the fair value of financial liabilities designated at fair value through net result due to changes in own credit risk.

For further guidance on the classifications, please refer to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

**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*.

### 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.

**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 may include:

- the amount of each significant category of income recognised, including income arising from:
    - the sale of goods
    - the rendering of services
    - interest
    - royalties
    - dividends. [AASB 101.79(b)]
  - the amount of income arising from exchanges of goods or services included in each significant category of income
  - total interest income for financial assets that are not at fair value through profit or loss [AASB 7.20(b)]
  - fee income arising from financial assets that are not at fair value through profit or loss or trust and other fiduciary activities that result in the holding of assets on behalf of others. [AASB 7.20(c)]
-

**Balance sheet (a) [REVISED]**

As at 30 June 20X2

(\$ thousand)

| Source reference | For illustrative purposes only  | Notes | 20X2           | 20X1           |
|------------------|---|-------|----------------|----------------|
|                  | <b>Assets</b>   |       |                |                |
|                  | <b>Financial assets</b>   |       |                |                |
| AASB 101.58 (a)  | Cash and deposits   | 7.3   | 71 803         | 66 443         |
| AASB 101.54 (i)  | Receivables   | 6.1   | 36 045         | 20 525         |
| AASB 101.54 (h)  | Contract assets   | 6.1   | 20             | 20             |
| AASB 15.105      | Financial assets classified as held for sale including disposal group assets                                | 9.3.5 | 8 572          | 11 756         |
| AASB 101.54 (g)  | Investments and other financial assets  | 5.6   | 14 076         | 16 731         |
| AASB 101.54 (d)  | Investments accounted for using the equity method   | 5.5   | 5 187          | 6 112          |
|                  | <b>Total financial assets</b>   |       | <b>135 703</b> | <b>121 587</b> |
|                  | <b>Non-financial assets</b>   |       |                |                |
| AASB 101.58 (a)  | Inventories   | 6.3   | 12 055         | 19 732         |
| AASB 101.54 (g)  | Non-financial physical assets classified as held for sale including disposal group assets                   | 9.3.6 | 6 781          | 14 600         |
| AASB 101.54 (j)  | Property, plant and equipment   | 5.1   | 144 314        | 135 607        |
| AASB 101.54 (a)  | Biological assets   | 5.3   | 4 034          | ..             |
| AASB 101.54 (f)  | Investment properties   | 5.2   | 2 354          | 5 029          |
| AASB 101.54 (b)  | Intangible assets   | 5.4   | 7 974          | 9 447          |
| AASB 101.54 (c)  | Other non-financial assets  | 6.4   | 1 483          | 380            |
|                  | <b>Total non-financial assets</b>   |       | <b>178 995</b> | <b>184 795</b> |
|                  | <b>Total assets</b>   |       | <b>314 698</b> | <b>306 382</b> |
|                  | <b>Liabilities</b>  |       |                |                |
| AASB 101.58 (c)  | Payables (b)  | 6.2   | 17 659         | 16 674         |
| AASB 101.54 (k)  | Contract liabilities  | 6.2   | 85             | 85             |
| AASB 15.105      | Borrowings  | 7.1   | 125 665        | 125 248        |
| AASB 101.54 (m)  | Employee related provisions   | 3.1.2 | 10 754         | 17 073         |
| AASB 101.54 (l)  | Other provisions  | 6.5   | 2 152          | 3 938          |
| AASB 15.105      | Other liabilities (b)   | 6.2   | 18 826         | 19 818         |
| AASB 101.54 (p)  | Liabilities directly associated with assets classified as held for sale including disposal groups           | 9.3.5 | 4 438          | 8 980          |
|                  | <b>Total liabilities</b>  |       | <b>179 494</b> | <b>191 731</b> |
|                  | <b>Net assets</b>   |       | <b>135 204</b> | <b>114 651</b> |
|                  | <b>Equity</b>   |       |                |                |
|                  | Accumulated surplus/(deficit)   |       | 66 823         | 68 824         |
| AASB 101.54 (r)  | Physical asset revaluation surplus  | 9.4   | 9 339          | 5 759          |
| AASB 9.B5.7.1    | Financial assets at fair value through other comprehensive income reserve                                   | 9.4   | 1 550          | 1 723          |
| AASB 9.B5.7.1    | Own credit loss revaluation reserve for financial liability designated at fair value through profit or loss | 9.4   | 30             | ..             |
| AASB 101.54 (r)  | Contributed capital   |       | 57 462         | 38 345         |
|                  | <b>Net worth</b>  |       | <b>135 204</b> | <b>114 651</b> |

The accompanying notes form part of these financial statements.

Note:

(a) This format is aligned to AASB 1049 Whole of Government and General Government Sector Financial Reporting.

(b) The grant of a right to the operator liability previously disclosed within payables has now been disclosed within the other liabilities line item to more appropriately reflect the nature of these items. This relates to the IP and registry functions commercialisation recognised applying AASB 1059 and is progressively reduced over the period of the arrangement. Further information is included in Notes 2.4.5 Other Income and 7.5.3 Service Concession Arrangements: Grantors.

## Guidance – Balance sheet [REVISED]

### Presentation of the balance sheet

The balance sheet (face) presents:

- line items in liquidity order
- 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
- 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. [AASB 101.72]

An entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period. [AASB 101.72A Revised]

If an entity has a right at balance date to roll over an obligation for at least twelve months after the reporting period, it classifies the obligation as non-current, even if it would be otherwise due within a shorter period. If the entity has no such right to defer, the potential to refinance is not considered and the liability is classified as current [AASB 101.73].

### Breach of loan covenants – Classification:

If an entity breaches a covenant from a loan arrangement at or before balance date and the loan becomes payable on demand, the liability will be classified as current. This current liability classification will be used even if the lender has agreed, after the balance date and before the authorisation of the financial statements for issue, 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 Revised and 101.75].

**Revaluation Surplus:** The Model presents separately on consolidated balance sheet different types of revaluation surplus. An entity can group together the revaluation surplus associated with financial assets and liabilities, present on balance sheet as a single line item and disclose them separately in Note 9.4 Reserves.

If, since its last annual reporting date, an entity has reclassified financial assets out of the fair value through other comprehensive income category so that they are measured at amortised cost or out of the fair value through profit or loss category so that they are measured at fair value through other comprehensive income it shall disclose:

- the fair value of the financial assets at the end of the reporting period
- the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets had not been reclassified. [AASB 7.12D]

**Minimum information to be presented [AASB 101.54, 55]****Assets**

- cash and cash equivalents
- trade and other receivables
- contract assets
- 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
- property, plant and equipment
- intangible assets

**Liabilities**

- trade and other payables
  - contract liabilities
  - liabilities held for sale
  - current tax liabilities
  - deferred tax liabilities
  - liabilities included in disposal groups classified as held for sale
  - borrowings
  - provisions
-

**Cash flow statement (a)**

For the financial year ended 30 June 20X2

(\$ thousand)

| <i>Source reference</i> | <i>For illustrative purposes only</i>  | <i>Notes</i> | <i>20X2</i>     | <i>20X1</i>     |
|-------------------------|--|--------------|-----------------|-----------------|
| AASB 107.10             | <b>Cash flows from operating activities</b>  |              |                 |                 |
|                         | <b>Receipts</b>  |              |                 |                 |
|                         | Receipts from government   |              | 78 088          | 106 903         |
|                         | Receipts from other entities   |              | 5 536           | 4 373           |
| AASB 107.31             | Interest received  |              | 1 749           | 1 606           |
| AASB 107.31             | Dividends received <sup>(b)</sup>  |              | 1 698           | 1 611           |
|                         | Other receipts   |              | 516             | 262             |
|                         | <b>Total receipts</b>  |              | <b>87 587</b>   | <b>114 755</b>  |
|                         | <b>Payments</b>  |              |                 |                 |
|                         | Payments of grant expenses   |              | (36 227)        | (47 011)        |
| AASB 101.14 (c)(d)      | Payments to suppliers and employees  |              | (23 479)        | (19 792)        |
| Interpretation 1031.11  | Goods and services tax paid to the ATO <sup>(c)</sup>                                    |              | (3 055)         | (3 497)         |
| AASB 107.31             | Interest and other costs of finance paid   |              | (6 609)         | (4 507)         |
|                         | Other payments   |              | (6 382)         | (3 200)         |
|                         | <b>Total payments</b>  |              | <b>(75 752)</b> | <b>(78 007)</b> |
|                         | <b>Net cash flows from/(used in) operating activities</b>                                | 7.3.1        | <b>11 835</b>   | <b>36 748</b>   |
|                         | <b>Cash flows from investing activities</b>  |              |                 |                 |
| AASB 107.10             | Payments for investments <sup>(d)</sup>  |              | (6 364)         | (13 386)        |
| AASB 107.16 (c)         | Proceeds from sale of investments <sup>(d)</sup>   |              | 7 857           | 2 409           |
| AASB 107.16 (d)         | Purchases of non-financial assets  |              | (23 828)        | (19 438)        |
| AASB 107.16 (a)         | Sales of non-financial assets  |              | 2 855           | 7 428           |
| AASB 107.16 (b)         | Loans granted to other parties <sup>(e)</sup>  |              | (390)           | (277)           |
| AASB 107.16 (e)         | Repayments of loans from other parties <sup>(e)</sup>                                    |              | 78              | 140             |
| AASB 107.16 (f)         | Proceeds from disposal of activity   | 5.7.2        | 17 795          | ..              |
|                         | Payments for purchase of activity  |              | (23 407)        | ..              |
|                         | <b>Net cash flows from/(used in) investing activities</b>                                |              | <b>(25 404)</b> | <b>(23 124)</b> |
|                         | <b>Cash flows from financing activities</b>  |              |                 |                 |
|                         | 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          | 7 455           |
| AASB 107.17 (d)         | Repayment of borrowings and principal portion of lease liabilities <sup>(f)</sup>        |              | (8 896)         | (4 544)         |
| AASB 16.50 (a)          |  |              |                 |                 |
|                         | <b>Net cash flows from/(used in) financing activities</b>                                |              | <b>28 460</b>   | <b>13 411</b>   |
|                         | <b>Net increase/(decrease) in cash and cash equivalents</b>                              |              | <b>14 891</b>   | <b>27 035</b>   |
|                         | Cash and cash equivalents at beginning of financial year                                 |              | 62 289          | 35 094          |
| AASB 107.28             | Effect of exchange rate fluctuations on cash held in foreign currency                    |              | (471)           | 160             |
|                         | <b>Cash and cash equivalents at end of financial year</b>                                | 7.3          | <b>76 709</b>   | <b>62 289</b>   |

The accompanying notes form part of these financial statements.

Notes:

- (a) This format is aligned to AASB 1049 Whole of Government and General Government Sector Financial Reporting.
- (b) Dividends received is recognised as cash flow from operating activities. In contrast, dividends paid is recognised as cash flow from financing activities.
- (c) GST paid to the Australian Taxation Office is presented on a net basis.
- (d) 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.
- (e) Includes loans granted to/from entities external to the Department and related entities.
- (f) The Department has recognised cash payments for the principal portion of lease payments as financing activities; cash payments for the interest portion as operating activities consistent with the presentation of interest payments and short-term lease payments for leases and low-value assets as operating activities.

## 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.

There are two methods for reporting cash flows, the direct method and the 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:

- the sale of goods and the rendering of services
- royalty, fees, commissions and other income
- payments to suppliers for goods and services, including purchases of inventory
- cash payments to and on behalf of employees
- premiums and claims, annuities and other policy benefits (for insurance entities)
- income taxes (only applicable to those entities subject to the National Tax Equivalent Regime)
- contracts held for dealing or trading purposes
- cash dividends received [FRD 110]
- 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:

- 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)
- 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:

- 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
- 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:

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

### 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.

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

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

- cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity
- 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:

- cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date
- the placement of deposits with and withdrawal of deposits from other financial institutions
- 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 investee. 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.

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## Statement of changes in equity <sup>(a)</sup>

For the financial year ended 30 June 20X2

(\$ thousand)

| Source reference | For illustrative purposes only                            | Notes | Physical asset revaluation surplus | Financial assets at fair value through other comprehensive income revaluation reserve | Own credit risk revaluation reserve relating to financial liabilities designated at fair value through profit or loss | Accumulated surplus | Contributions by owner | Total          |
|------------------|---|-------|------------------------------------|---|---|---------------------|------------------------|----------------|
| AASB 101.106 (d) | <b>Balance at 1 July 20X0</b>                             |       | 4 626                              | 1 723   | ..  | 59 378              | 27 845                 | 93 572         |
|                  | Net result for the year                                   |       | ..                                 | ..  | ..  | 7 624               | ..                     | 7 624          |
|                  | Other comprehensive income for the year                   | 9.4   | 2 955                              | ..  | ..  | ..                  | ..                     | 2 955          |
|                  | Transfer to accumulated surplus                           | 9.4   | (1 822)                            | ..  | ..  | 1 822               | ..                     | ..             |
|                  | Capital appropriations                                    | 2.3   | ..                                 | ..  | ..  | ..                  | 10 500                 | 10 500         |
|                  | <b>Balance at 30 June 20X1</b>                            |       | <b>5 759</b>                       | <b>1 723</b>  | <b>..</b>   | <b>68 824</b>       | <b>38 345</b>          | <b>114 651</b> |
|                  | <b>Balance at 1 July 20X1</b>                             |       | <b>5 759</b>                       | <b>1 723</b>  | <b>..</b>   | <b>68 824</b>       | <b>38 345</b>          | <b>114 651</b> |
|                  | <b>Net result for the year</b>                            |       | <b>..</b>                          | <b>..</b>   | <b>..</b>   | <b>7 490</b>        | <b>..</b>              | <b>7 490</b>   |
|                  | Other comprehensive income for the year                   |       | 7 613                              | 150   | 30  | ..                  | ..                     | 7 793          |
|                  | Transfer to accumulated surplus – on disposal of business | 9.4   | (3 396)                            | (323)   | ..  | 3 719               | ..                     | ..             |
|                  | Transfer to accumulated surplus                           | 9.4   | (637)                              | ..  | ..  | 637                 | ..                     | ..             |
|                  | Transfer to contributed capital                           | 9.4   | ..                                 | ..  | ..  | (13 847)            | 13 847                 | ..             |
|                  | Capital appropriations                                    | 2.3   | ..                                 | ..  | ..  | ..                  | 5 750                  | 5 750          |
| AASB 1004.48     | Administrative restructure – net assets received          | 4.3   | ..                                 | ..  | ..  | ..                  | 19 617                 | 19 617         |
| AASB 1004.49     | Administrative restructure – net assets transferred       | 4.3   | ..                                 | ..  | ..  | ..                  | (20 097)               | (20 097)       |
|                  | <b>Balance at 30 June 20X2</b>                            |       | <b>9 339</b>                       | <b>1 550</b>  | <b>30</b>   | <b>66 823</b>       | <b>57 462</b>          | <b>135 204</b> |

The accompanying notes form part of these financial statement.

Note:

(a) This format is aligned to AASB 1049 Whole of Government and General Government Sector Financial Reporting.

## Guidance – Statement of changes in equity

### Information to be disclosed:

- total comprehensive result for the period, showing separately the total amounts attributable to owners of the parent and to minority interest
- for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with AASB 108
- 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:
  - profit or loss
  - each item of other comprehensive income
  - 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

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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.

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]

Its principal address is:

Department of Technology  
1 Victoria Place  
Melbourne VIC 3000

## 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;]

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 119, 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.

## 1. ABOUT THIS REPORT

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\(e\)\]](#)

### Compliance information

These general-purpose financial statements (Tier 1) 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*. [\[AASB 1054.7\]](#)

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
- How these were made (the method used).

Examples include 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 their nature and 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 [AASB 12.7(a)], [AASB10.5 and 6]
- whether it has joint control of an arrangement or significant influence over another entity [AASB 12.7(b)], [AASB11.4 and 5]
- 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(c)], [AASB11.14-16]
- when substantially all the significant risks and rewards of ownership of financial assets and for lessors, assets subject to leases are transferred to other entities [AASB 16.62]
- whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to income. [AASB 15.B66.b]

## Basis of consolidation

AASB 10 *Consolidated Financial Statements* defines the principle of control and establishes control as the basis for consolidation. Please refer to the [Control analysis for Victorian Public Sector Entities checklist](#) on the DTF website for 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 [AASB 101.51(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 9.14 for a style convention guide and explanation of minor discrepancies resulting from rounding.

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## 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 9, 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 from accrual based parliamentary appropriations). The Department also receives market-based fees providing advice and other services in relation to information technology and telecommunications.

#### Significant judgement: Grants revenue

[Department to include specific information on judgements made in the application of the standard]

The Department has made the judgement that amounts received in relation to [provide details] should be recognised under [AASB 1058 / AASB 15] on the basis that [include details of reasons why a specific treatment was deemed to be judgemental in nature].

### Structure

|     |  |    |
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## 2.1 Summary of revenue and income that funds the delivery of our services

|                  |  | (\$ thousand)  |               |
|------------------|--|----------------|---------------|
| Source reference | Notes  | 20X2           | 20X1          |
|                  | Output appropriations  | 85 535         | 63 682        |
|                  | Special appropriations   | 8 128          | 11 396        |
|                  | Interest income  | 3 864          | 2 897         |
|                  | Sale of goods and services   | 1 779          | 1 346         |
|                  | Grants   | 288            | 255           |
|                  | Fair value of assets and services received free of charge or for nominal consideration | 1 589          | 1 708         |
|                  | Other income   | 7 213          | 5 826         |
| AASB 101.97      | <b>Total revenue and income from transactions</b>                                      | <b>108 396</b> | <b>87 110</b> |

Revenue and income that fund delivery of the Department's services are accounted for consistently with the requirements of the relevant accounting standards disclosed in the following notes.

## 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. [1058.9(a) and 10]

**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 1058.39]

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.

| 20X2                                 | Appropriations Act   |                                       |              | Financial Management Act |            |            |            | Total Parliamentary authority | Appropriations applied | Variance <sup>(b)</sup> | (\$ thousand) |
|--------------------------------------|----------------------|---------------------------------------|--------------|--------------------------|------------|------------|------------|-------------------------------|------------------------|-------------------------|---------------|
|                                      | Annual appropriation | Advance from Treasurer <sup>(a)</sup> | Section 3(2) | Section 29               | Section 30 | Section 32 | Section 35 |                               |                        |                         |               |
| <b>Controlled</b>                    |                      |                                       |              |                          |            |            |            |                               |                        |                         |               |
| Provision for outputs                | 110 889              | 1 963                                 | ..           | 10 037                   | (12 019)   | ..         | ..         | 110 870                       | 93 663                 | 17 207                  |               |
| Addition to net assets               | 6 210                | ..                                    | ..           | ..                       | ..         | ..         | ..         | 6 210                         | 5 750                  | 460                     |               |
| <b>Administered</b>                  |                      |                                       |              |                          |            |            |            |                               |                        |                         |               |
| Payments made on behalf of the State | ..                   | ..                                    | ..           | ..                       | 12 019     | ..         | ..         | 12 019                        | 12 019                 | ..                      |               |
| <b>20X2 total</b>                    | <b>117 099</b>       | <b>1 963</b>                          | <b>..</b>    | <b>10 037</b>            | <b>..</b>  | <b>..</b>  | <b>..</b>  | <b>129 099</b>                | <b>111 432</b>         | <b>17 667</b>           |               |
| <b>20X1</b>                          |                      |                                       |              |                          |            |            |            |                               |                        |                         |               |
| <b>Controlled</b>                    |                      |                                       |              |                          |            |            |            |                               |                        |                         |               |
| Provision for outputs                | 79 854               | ..                                    | 1 000        | 11 403                   | (10 869)   | 697        | ..         | 82 084                        | 75 078                 | 7 006                   |               |
| Addition to net assets               | ..                   | ..                                    | ..           | ..                       | ..         | ..         | ..         | ..                            | ..                     | ..                      |               |
| <b>Administered</b>                  |                      |                                       |              |                          |            |            |            |                               |                        |                         |               |
| Payments made on behalf of the State | ..                   | ..                                    | ..           | ..                       | 10 869     | ..         | ..         | 10 869                        | 10 869                 | ..                      |               |
| <b>20X1 total</b>                    | <b>79 854</b>        | <b>..</b>                             | <b>1 000</b> | <b>11 403</b>            | <b>..</b>  | <b>697</b> | <b>..</b>  | <b>92 953</b>                 | <b>85 947</b>          | <b>7 006</b>            |               |

Notes:

(a) The specific purpose(s) of this supplementary funding has/have been disclosed in the State's Annual Financial Report. This funding has been fully spent/applied in the current financial year <or if not, please provide a summary of circumstances/rationale>.

(b) 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 |               |
|---|---|------------------------|---------------|
|   |   | 20X2                   | 20X1          |
| 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         |
|   |   | <b>8 128</b>           | <b>11 396</b> |

### Guidance – Summary of compliance with annual parliamentary and special appropriations

In satisfying the disclosure requirements of AASB 1058.39, reference should be made to FRD 13 *Disclosure of Parliamentary appropriations* for the format to be followed in disclosing annual and special appropriations.

A government department shall disclose separately:

- (a) a summary of the recurrent, capital or other major categories of appropriations, disclosing separately:
  - the original amounts appropriated for the reporting period
  - 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. This includes disclosing any financial consequences for the entity as a result of unauthorised expenditure
- (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]
- (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 1058.40]

FRD 13 requires departments to provide a separate disclosure for each of their approved Treasurers Advances (TA) if they have not been fully spent or applied in the current year. The objective of this additional disclosure is to align the cash management and supplementary funding of departments with the Financial Management Framework principles. This disclosure was also recommended by the Victorian Auditor-General's Office.

**Information to be disclosed:** If the TA funding hasn't been fully spent or applied in the current year, entities are required to disclose the unspent amount. This includes explaining the rationale for not applying the Treasurers Advance.

## 2. FUNDING DELIVERY OF OUR SERVICES

### 2.4 Income from transactions

#### 2.4.1 Interest income

|                         | (\$ thousand)   |              |
|-------------------------|---|--------------|
| <i>Source reference</i> | 20X2  | 20X1         |
|                         | <b>Interest from financial assets not at fair value through profit and loss</b> |              |
|                         | 888   | 839          |
|                         | 242   | 235          |
| AASB 16.90 (a)(ii)      | 251   | 251          |
|                         | 794   | 310          |
| AASB 7.20 (b)           | <b>2 175</b>  | <b>1 635</b> |
|                         | <b>Interest from financial assets at fair value through profit and loss</b>     |              |
|                         | 1 689   | 1 262        |
|                         | <b>1 689</b>  | <b>1 262</b> |
| AASB 101.82 (a)         | <b>3 864</b>  | <b>2 897</b> |

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.

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) |              |
|-------------------------|---------------|--------------|
| <i>Source reference</i> | 20X2          | 20X1         |
| AASB 15.113(a)          | 1 114         | 945          |
| AASB 15.113(a)          | 215           | ..           |
| AASB 15.113(a)          | 450           | 401          |
|                         | <b>1 779</b>  | <b>1 346</b> |

The sale of goods and services included in the table above are transactions that the Department has determined to be classified as revenue from contracts with customers in accordance with AASB 15.

#### Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in the contract with the customer. The Department recognises revenue when it transfers control of a good or service to the customer, i.e. when, or as, the performance obligations for the sale of goods, biological assets and services to the customer are satisfied.

Customers obtain control of the supplies and consumables at a point in time when the goods are delivered to and have been accepted at their premises.

Revenue from the sale of goods are recognised when the goods are delivered and have been accepted by the customer at their premises.

Revenue from the rendering of services is recognised at a point in time when the performance obligation is satisfied when the service is completed; and over time when the customer simultaneously receives and consumes the services as it is provided. [AASB15.35]

Customers are invoiced and revenue is recognised when the goods are delivered and accepted by customers. In rare circumstance where there may be a change in the scope of services provided, the customer will be provided with a new contract for the additional services to be rendered and revenue is recognised consistent with accounting policy above.

For contracts that permit the customer to return an item, revenue is recognised to the extent it is highly probable that a significant cumulative reversal will not occur. Therefore, the amount of revenue recognised is adjusted for the expected returns, which are estimated based on the historical data. In these circumstances, a refund liability and a right to recover returned goods asset are recognised.

The right to recover the returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables (Note 6.2) and the right to recover returned goods is included in inventory (Note 6.3). The Department reviews its estimate of expected returns at each reporting date and updates the amount of the asset and liability accordingly. As the sales are made with a short credit term, there is no financing element present. There has been no change in the recognition of revenue from the sale of goods as a result of the adoption of AASB 15.

Consideration received in advance of recognising the associated revenue from the customer is recorded as a contract liability (Note 6.2). Where the performance obligations is satisfied but not yet billed, a contract asset is recorded. (Note 6.1). [AASB 15.105]

### 2.4.3 Grants

|                  |   | (\$ thousand) |            |
|------------------|---|---------------|------------|
| Source reference |   | 20X2          | 20X1       |
|                  | <b>Income recognised as income of not-for-profit entities</b>       |               |            |
| AASB 1058        | General purpose   | 125           | 100        |
| AASB 1058        | Specific purpose grants for on-passing                              | 50            | 65         |
| AASB 1058.26 (a) | Donations   | ..            | ..         |
| AASB 1058.31     | Other specific purpose to acquire a recognisable nonfinancial asset | 40            | 19         |
| AASB 1058.10     | Other specific purpose grants                                       | 28            | 21         |
|                  | <b>Income recognised as revenue from contract with customers</b>    |               |            |
| AASB 15.F20      | Other specific purpose grants                                       | 45            | 50         |
|                  | <b>Total grants</b>   | <b>288</b>    | <b>255</b> |

#### Grants recognised under AASB 1058

The Department has determined that the grant income included in the table above under AASB 1058 has been earned under arrangements that are either not enforceable and/or linked to sufficiently specific performance obligations.

Income from grants without any sufficiently specific performance obligations, or that are not enforceable, is recognised when the Department has an unconditional right to receive cash which usually coincides with receipt of cash. On initial recognition of the asset, the Department recognises any related contributions by owners, increases in liabilities, decreases in assets, and revenue ('related amounts') in accordance with other Australian Accounting Standards. Related amounts may take the form of:

- contributions by owners, in accordance with AASB 1004
- revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15
- a lease liability in accordance with AASB 16
- a financial instrument, in accordance with AASB 9
- a provision, in accordance with AASB 137.

Income received for specific purpose grants for on-passing is recognised simultaneously as the funds are immediately on-passed to the relevant recipient entities on behalf of the Commonwealth Government.

Income from grants to construct the Department's Wantirna South data storage centre and the development and construction of the web infrastructure framework are recognised progressively as the asset is constructed. This aligns with the Department's obligation to construct the asset. The progressive percentage costs incurred is used to recognise income because this most closely reflects the construction progress as costs are incurred as the works are done.

[AASB 1058.32]

#### Grants recognised under AASB 15

Income from grants that are enforceable and with sufficiently specific performance obligations are accounted for as revenue from contracts with customers under AASB 15. These grants relate to the provision of technology services. Revenue is recognised when the Department satisfies the performance obligation by providing the relevant technology services to the relevant health agencies. This is recognised based on the consideration specified in the funding agreement and to the extent that it is highly probable a significant reversal of the revenue will not occur. The funding payments are normally received in advance or shortly after the relevant obligation is satisfied.

## 2. FUNDING DELIVERY OF OUR SERVICES

### 2.4.4 Fair value of assets and services received free of charge or for nominal consideration recognised as income

|                  | (\$ thousand)   |                    |
|------------------|---|--------------------|
| Source reference | 20X2  | 20X1               |
|                  | <b>Assets</b>   |                    |
|                  | 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              |
|                  | <b>Services</b>   |                    |
|                  |   | .. ..              |
| AASB 1058.8      | <b>Total fair value of assets and services received free of charge or for nominal consideration</b> | <b>1 589 1 708</b> |

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 as a capital contribution transfer.

**Voluntary Services:** 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. The Department did not receive any volunteer services and does not depend on volunteers to deliver its services. [AASB 1058.18]

### 2.4.5 Other income

|                                | (\$ thousand)  |                    |
|--------------------------------|--|--------------------|
| Source reference               | 20X2   | 20X1               |
| AASB 16.90(b)<br>140.75 (f)(i) | Rental income – Investment properties <sup>(a)</sup>             | 2 215 1 440        |
| AASB 101.97                    | Dividends received from investments                              | 1 698 1 611        |
| AASB 15.104                    | Bad debts reversal   | 30 15              |
|                                | Revenue related to service concession arrangement <sup>(b)</sup> | 1 000 850          |
|                                | Royalties  | .. ..              |
|                                | Fines and regulatory fees  | 400 425            |
|                                | Other miscellaneous income                                       | 40 65              |
|                                | Forgiveness of liabilities                                       | 1 830 1 420        |
|                                | <b>Total other income</b>  | <b>7 213 5 826</b> |

Notes:

(a) Investment properties are reported in Note 5.2.

(b) This revenue relates to the Intellectual property and registry functions commercialisation and reflects the progressive unwinding of the 'grant of right to operate liability' (Note 6.2 Payables) over the remaining period of the arrangement. Refer to Note 7.5.3 AASB 1059 Service Concession Arrangements: Grantors for more details.

**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.

**Rental income** from leasing of investment properties that are operating leases are recognised on a straight-line basis over the lease term. [AASB 16.81]

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. The risks associated with rights that the Department retains in underlying assets are not considered to be significant, the Department employs strategies to further minimise these risks. For example, ensuring all contracts include clauses requiring the lessee to compensate the Department when a property has been subject to excess wear and tear during the lease term. [AASB 16.92]

| Source reference                                    | (\$ thousand) |           |
|---|---------------|-----------|
|   | 20X2          | 20X1      |
| AASB 16.97  |               |           |
| 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        |
| <b>Total</b>  | <b>72</b>     | <b>90</b> |

**Fines and regulatory fees** are recognised when an invoice is issued, which establishes the entitlement to payment.

**Forgiveness of liabilities assumed by other entities** are recognised as income and recorded at the carrying amount. [AASB 1004.39]

During the year, there was a forgiveness of a loan of \$1.83 million as a result of [include the reasons for the forgiveness of liabilities].

### Guidance – Income from transactions

Accounting for income has to comply with AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 1004 *Contributions*, except for income that arises from sources covered by other standards (e.g. lease income – AASB 16 *Leases*, dividends from equity accounted investments – AASB 128).

Position papers for AASB 15 and AASB 1058 are available at:

[www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists](http://www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists)

An entity shall disaggregate revenue recognised under AASB 15 and AASB 1058 into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. [AASB15.113(a)]

Revenue from contracts with customers under AASB 15 must be disclosed separately from other sources of revenue. [AASB 15.B89] Examples of categories of revenue within the scope of AASB 15 that might be appropriate include, but are not limited to, all of the following:

- type of good or service (e.g. major product lines)
- geographical region (e.g. country or region)
- market or type of customer (e.g. government and non-government customers)
- type of contract (e.g. fixed-price and time-and-materials contracts)
- contract duration (e.g. short-term and long-term contracts)
- timing of transfer of goods or services (e.g. revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time)
- sales channels (e.g. goods sold directly to consumers and goods sold through intermediaries).

Examples of categories of income within the scope of AASB 1058 that might be appropriate include but are not limited to the following: [AASB 1058.26]

- grants, bequests and donations of cash, other financial assets and goods
- recognised volunteer services
- appropriations income.

A not-for-profit entity shall assess which revenue standard is applicable to its income streams. For a not-for-profit entity, the majority of income streams are likely to be under either AASB 15 or AASB 1058. As AASB 1058 undertakes a residual approach, an entity should assess the applicability of AASB 15 before it considers the application of AASB 1058.

AASB 15 applies to contracts with customers that are enforceable with sufficiently specific performance obligations. If the contract does not meet these criteria, an entity shall consider the requirements of AASB 1058 in accounting for such contracts. [AASB 15.9]

AASB 1004 provides specific requirements for the following types of transactions:

- parliamentary appropriations in the nature of contribution by owners
- transactions which are contribution by/distribution to owners
- restructure of administrative arrangements
- liabilities of government departments assumed by others.

## 2. FUNDING DELIVERY OF OUR SERVICES

### Recognition and measurement under AASB 15

In accordance with the requirements of AASB 15, revenue shall be recognised when the entity satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when (or as) the customer obtains control of it. For each performance obligation identified in a contract, an entity shall determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs
- The entity's performance creates or enhances an asset (e.g. work in progress) that the customer controls as the asset is created or enhanced
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

For each performance obligation satisfied over time, an entity shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e. the satisfaction of an entity's performance obligation).

An entity shall apply a single method of measuring progress for each performance obligation satisfied over time and the entity shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time. Revenue should be recognised at the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation.

AASB 15 also requires recognition of revenue at the amount of the transaction price that is allocated to the performance obligation(s). When determining the transaction price, an entity shall consider the effects of variable consideration, constraining estimates of variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and consideration payable to a customer. [\[AASB 15.46 and 48\]](#)

### Recognition and measurement for AASB 1058

AASB 1058 applies to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives (i.e. transactions with a donation nature) and the receipt of volunteer services. [\[AASB 1058.1\]](#) AASB 1058 requires an entity to apply the requirements of other Australian Accounting Standards (as relevant) to an asset arising from a transaction (e.g. AASB 9 for cash received). [\[AASB 1058.8\]](#)

On initial recognition of the asset, an entity shall recognise any related contributions by owners, increases in liabilities, decreases in assets ('related amounts') and revenue in accordance with other Australian Accounting Standards. [\[AASB 1058.9\]](#)

For example, related amounts may take the form of:

- contributions by owners, in accordance with AASB 1004
- revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15
- a lease liability in accordance with AASB 16
- a financial instrument, in accordance with AASB 9
- a provision, in accordance with AASB 137. [\[AASB 1058.9\]](#)

For transactions within the scope of AASB 1058, an entity shall recognise income immediately in profit or loss for the excess of the initial carrying amount of an asset over the related amounts recognised in accordance with the other standards. [\[AASB 1058.10\]](#)

There is an exception where a transfer of a financial asset is to enable an entity to acquire or construct a recognisable non-financial asset that will be controlled by the entity. [\[AASB 1058.15\]](#)

This exception applies to a transfer 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

- occurs under an enforceable agreement. An entity shall recognise a liability for the excess of the initial carrying amount of a financial asset received in such a transfer over any related amounts recognised. The entity shall recognise income in profit or loss when the entity satisfies its obligations under the transfer. [AASB 1058.16]

#### Termination for convenience

Reporters are required to assess whether their income agreements are subject to termination for convenience clauses **and** any unspent cash balances need to be returned to the grantor as a result of such termination. In these circumstances reporters need to disclose whether the unspent grant amounts have been recorded as either income upon receipt or a financial liability under AASB 9 *Financial Instruments*. The disclosure should also include the significant judgements made in determining whether to recognise any unspent grants as income or a financial liability.

#### Recognition of volunteer services

Government departments, general government sectors (GGSs) and whole of governments shall recognise an inflow of resources in the form of volunteer services as an asset (or an expense, when the definition of an asset is not met) if:

- the fair value of those services can be measured reliably
- the services would have been purchased if they had not been donated. [AASB 1058.18]

Entities should advise DTF (Consolidated Reporting & Analysis team) if volunteer services are being recognised so they can be captured in the whole of State consolidated report.

#### Additional disclosure of non-contractual income arising from statutory requirements

Disclose income arising from statutory requirements (such as taxes, rates and fines) recognised during the period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors. [AASB 1058.28]

Disclosing information about assets and liabilities recognised at the reporting date in accordance with this Standard, including the amounts of:

- receivables that are not a financial asset as defined in AASB 132 *Financial Instruments: Presentation* (e.g. income tax receivable from a taxpayer)
  - interest income recognised in relation to such receivables during the period
  - impairment losses recognised in relation to such receivables during the period
  - financial liabilities relating to prepaid taxes or rates for which the taxable event has yet to occur, and the future period(s) to which those taxes or rates relate. [AASB 1058.29]

Other information that may be appropriate for an entity to disclose includes, for each class of taxation income that the entity cannot measure reliably during the period in which the taxable event occurs:

- information about the nature of the tax [AASB 1058.30(a)]
- the reason(s) why that income cannot be measured reliably [AASB 1058.30(b)]
- when that uncertainty might be resolved. [AASB 1058.30(c)]

#### Additional disclosure for rental income

Where the Department is a lessor with an operating lease, it should disclose the lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate [AASB 16.90(b)], in the 'other income' note. Lessors shall also disclose additional qualitative and quantitative information about its leasing activities, including but not limited to:

- the nature of the lessor's leasing activities [AASB 16.92(a)]
- how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose the risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces the risk. [AASB 16.92(b)]

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<br>20X2 | 20X1          |
| <b>User charges, or sales of goods and services</b> |                |               |
| ScienceData   | 598            | 658           |
| Technology Special Zone Registration                | 955            | 998           |
| National Technology Development Fund                | 250            | 260           |
| Network Congestion Charge                           | 365            | 399           |
| <b>Asset sales</b>                                  |                |               |
| Cloud Computer Complex                              | ..             | 2 350         |
| <b>Commonwealth specific purpose payments</b>       |                |               |
| 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         |
| <b>Total annotated income agreements</b>            | <b>10 037</b>  | <b>11 403</b> |

#### 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.

Detailed guidance on categories of annotated income and the process of obtaining a section 29 annotated income agreement is included in the Resource Management 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

|     |   |    |
|-----|---|----|
| 3.1 | Expenses incurred in delivery of services ..... | 33 |
| 3.2 | Grant expenses .....                            | 38 |
| 3.3 | Other operating expenses .....                  | 39 |

### 3.1 Expenses incurred in delivery of services

|                  |  | (\$ thousand) |               |               |
|------------------|--|---------------|---------------|---------------|
| Source reference |  | Notes         | 20X2          | 20X1          |
| AASB 101.99      | Employee benefit expenses                              | 3.1.1         | 13 767        | 10 970        |
| AASB 101.82 (b)  | Grants expenses  | 3.2           | 32 884        | 43 040        |
| AASB 101.82 (b)  | Other operating expenses                               | 3.3           | 16 328        | 8 822         |
| AASB 101.85      | <b>Total expenses incurred in delivery of services</b> |               | <b>62 979</b> | <b>62 832</b> |

#### 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     |   | 20X2          | 20X1          |
| AASB 119.46, FRD 112 | Defined contribution superannuation expense             | 451           | 325           |
| AASB 119.46, FRD 112 | 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        |
|                      | <b>Total employee expenses</b>                          | <b>13 767</b> | <b>10 970</b> |

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 112]

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 |   | 20X2          | 20X1          |
|                  | <b>Current provisions:</b>                                |               |               |
|                  | <b>Annual leave</b>                                       |               |               |
| AASB 119.8       | Unconditional and expected to settle within 12 months     | 1 716         | 1 438         |
|                  | Unconditional and expected to settle after 12 months      | 636           | 796           |
|                  | <b>Long service leave</b>                                 |               |               |
| AASB 119.8       | Unconditional and expected to settle within 12 months     | 1 231         | 3 002         |
|                  | Unconditional and expected to settle after 12 months      | 1 908         | 6 318         |
|                  | <b>Provisions for on-costs</b>                            |               |               |
| AASB 101.78 (d)  | Unconditional and expected to settle within 12 months     | 272           | 555           |
|                  | Unconditional and expected to settle after 12 months      | 377           | 599           |
| AASB 101.61      | <b>Total current provisions for employee benefits</b>     | <b>6 140</b>  | <b>12 708</b> |
|                  | <b>Non-current provisions:</b>                            |               |               |
|                  | Employee benefits   | 3 743         | 3 528         |
|                  | On-costs  | 871           | 837           |
|                  | <b>Total non-current provisions for employee benefits</b> | <b>4 614</b>  | <b>4 365</b>  |
|                  | <b>Total provisions for employee benefits</b>             | <b>10 754</b> | <b>17 073</b> |

#### Reconciliation of movement in on-cost provision

|                    |   | (\$ thousand) |
|--------------------|---|---------------|
| Source reference   |   | 20X2          |
|                    | <b>Opening balance</b>  | 1 991         |
| AASB 137.84 (a)    | Additional provisions recognised  | 451           |
| AASB 137.84 (b)    | Additions due to transfer in  | 141           |
| AASB 137.84 (b)    | Additions due to acquisitions   | 117           |
| 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)    | <b>Closing balance</b>  | <b>1 522</b>  |
| AASB 101.61        | Current   | 649           |
| 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 either:

- undiscounted value – if the Department expects to wholly settle within 12 months
- 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.

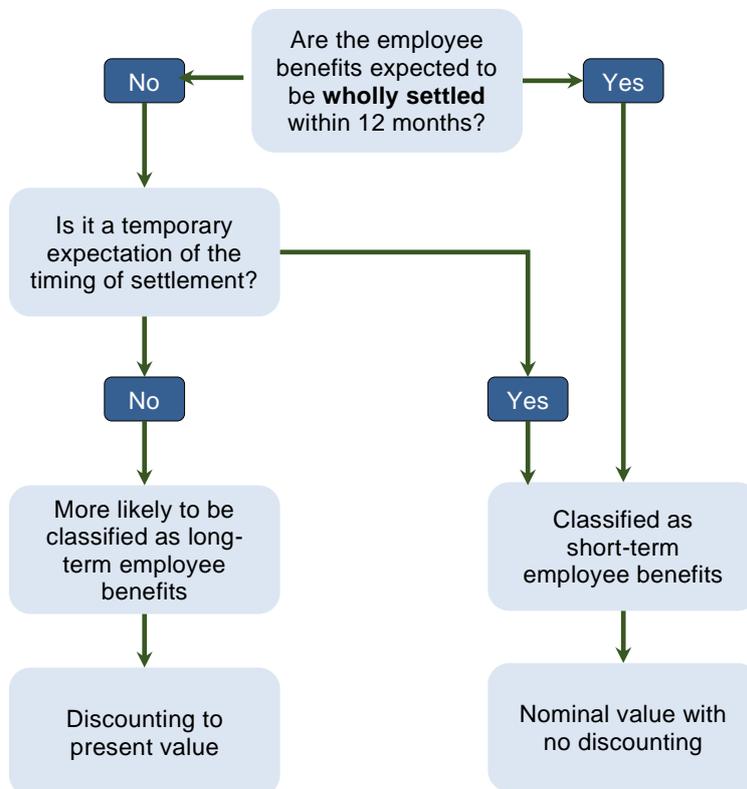
**Guidance – Employee benefits [REVISED]**

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.



### 3. THE COST OF DELIVERING SERVICES

#### 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. 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 wholly settled within 12 months, they should be classified as 'short-term employee benefits' and measured at nominal values without discounting. Where employee benefits are not expected to be wholly settled within 12 months, provisions will need to be measured at present values (on a discounted basis).

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 [Annual leave provisions on the DTF website](#) for further guidance on estimating annual leave provisions under AASB 119.

When calculating employee provision balances, entities shall consider the relevant salary on-costs. This includes assessing if there have been any changes to these on-costs for the reporting period.

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

Conditional LSL (less than six 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.

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### 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 |            |           |
|------------------|---|------------|--------------------------------------|------------|-----------|
|                  | 20X2  | 20X1       | 20X2                                 | 20X1       |           |
|                  | <b>Defined benefit plans <sup>(a)</sup></b> |            |                                      |            |           |
|                  | State Superannuation Fund                   | 271        | 195                                  | 45         | 33        |
|                  | Other                                       | 113        | 81                                   | 23         | 16        |
| AASB 119.53      | <b>Defined contribution plans</b>           |            |                                      |            |           |
|                  | VicSuper                                    | 141        | 93                                   | 24         | 16        |
|                  | Other                                       | 59         | 39                                   | 12         | 8         |
|                  | <b>Total</b>                                | <b>584</b> | <b>408</b>                           | <b>104</b> | <b>73</b> |

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 112 *Defined benefit superannuation obligations* 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 112) 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 112, 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
- 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.

**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, as such, disclose:

- the fact that the plan is a defined benefit plan
- the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan
- to the extent that a surplus or deficit in the plan may affect the amount of future contributions:
  - any available information about that surplus or deficit
  - the basis used to determine that surplus or deficit
  - the implications, if any, for the entity. [AASB 119.30]

### 3. THE COST OF DELIVERING SERVICES

## 3.2 Grant expenses

|  | (\$ thousand) |               |
|--|---------------|---------------|
|  | 20X2          | 20X1          |
| General purpose grants                 | 19 052        | 29 445        |
| Specific purpose grants for on-passing | 11 688        | 12 000        |
| Payments for specific purposes         | 2 144         | 1 595         |
| <b>Total grant expenses</b>            | <b>32 884</b> | <b>43 040</b> |

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 Other operating expenses [REVISED]

|                          |  | (\$ thousand) |              |
|--------------------------|--|---------------|--------------|
| Source reference         |  | 20X2          | 20X1         |
| AASB 101.97              | <b>Supplies and services</b>   |               |              |
|                          | Purchase of inventories  | 2 005         | 1 334        |
|                          | Purchase of services (including remuneration of auditors) <sup>(a)</sup>                   | 4 135         | 2 776        |
|                          | Maintenance <sup>(b)</sup>   | 223           | 94           |
|                          | Other borrowing cost (other than interest)   | 307           | 144          |
|                          | <b>Fair value assets and services provided free of charge or for nominal consideration</b> |               |              |
|                          | 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          |
|                          | <b>Lease rental expenses</b>   |               |              |
| AASB 16.53 (c)           | Short-term lease expenses  | 2 036         | 1 000        |
| AASB 16.53 (d)           | Low-Value assets   | 1 681         | 98           |
|                          | <b>Other</b>   |               |              |
|                          | 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 11.5.1               | Ex gratia expense  | 156           | 16           |
|                          | <b>Total other operating expenses</b>  | <b>16 328</b> | <b>8 822</b> |

**Notes:**

- (a) This includes quarterly payments relating to the Intellectual property and registry functions commercialisation arrangement. Refer to section 7.5.3 Service Concession Arrangements: Grantors.
- (b) Of the balance in 'other operating expenses – maintenance', \$XXX [\$xxx in 20X1] related to operating and maintenance expenses of assets contracted under the public private partnership arrangements [insert if relevant]. [PAEC Report on the 2011-12 Financial and Performance Outcomes, 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.

#### Lease rental expenses

The following lease payments are recognised on a straight-line basis:

- Short-term leases – leases with a term 12 months or less [AASB 16.5(a)]
- Low value leases – leases with the underlying asset's fair value (when new, regardless of the age of the asset being leased) is no more than \$10 000. [AASB 16.5(b), FRD 104]

Variable lease payments that are not included in the measurement of the lease liability (i.e. variable lease payments that do not depend on an index or a rate and which are not, in substance fixed), such as those based on performance or usage of the underlying asset, are recognised in the Comprehensive Operating Statement (except for payments which have been included in the carrying amount of another asset) in the period in which the event or condition that triggers those payments occur. [AASB 16.38(b)]

**Research activities:** Expenditure on research activities is recognised as an expense in the period in which it is incurred. [AASB 138.54]

**Cost of goods sold/distributed:** 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]

### 3. THE COST OF DELIVERING SERVICES

#### Guidance – Other operating expenses

Public Accounts and Estimates Committee (PAEC) Report on the 2011-12 Budget Estimates - Part three, 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.

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.

AASB 16 requires the disclosure of:

- the expenses relating to short-term leases accounted for applying the recognition exemption. This expense need not include the expense relating to leases with a lease term of one month or less [AASB 16.53(c), FRD 104]
- the expense relating to leases of low-value assets accounted for applying the recognition exemption. This expense shall not include the expense relating to short-term leases of low-value assets included in (a) above [AASB 16.53(d), FRD 104]
- The expense relating to variable lease payments not included in the measurement of lease liabilities. [AASB 16.53(e)]

## 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 20X2 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

|     |   |    |
|-----|---|----|
| 4.1 | Departmental outputs – Descriptions and objectives..... | 41 |
| 4.2 | Administered items.....                                 | 45 |
| 4.3 | Restructuring of administrative arrangements .....      | 50 |

### 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
- growing and linking all of Victoria.

### Information technology and telecommunication

**Description of output:** Provision of payroll, accounting and database management services 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
- sound financial management.

#### 4. DISAGGREGATED FINANCIAL INFORMATION BY OUTPUT

##### **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
- quality jobs and thriving innovative industries.

## Departmental outputs – Controlled income and expenses for the year ended 30 June 20X2 [AASB 1052.15(c), 15(d)]

(\$ thousand)

|  | Strategic policy advice <sup>(a)</sup> |                 | IT&T services <sup>(a)</sup> |                | New technology administration <sup>(a)(b)</sup> |                 | R&D biological technology <sup>(a)(c)</sup> |           | Departmental total |                 |
|--|--|-----------------|------------------------------|----------------|---|-----------------|---|-----------|--------------------|-----------------|
|  | 20X2                                   | 20X1            | 20X2                         | 20X1           | 20X2  | 20X1            | 20X2  | 20X1      | 20X2               | 20X1            |
| <b>Income from transactions</b>  |  |                 |                              |                |   |                 |   |           |                    |                 |
| 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   | 750                                    | 555             | 701                          | 703            | 204   | 88              | 124   | ..        | 1 779              | 1 346           |
| Grants   | 39                                     | 50              | ..                           | ..             | 76  | 90              | 173   | ..        | 288                | 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   | 4 683                                  | 5 009           | 950                          | 775            | 255   | 157             | 1 325                                       | ..        | 7 213              | 5 941           |
| <b>Subtotal</b>  | <b>45 497</b>                          | <b>41 017</b>   | <b>17 640</b>                | <b>12 423</b>  | <b>15 612</b>                                   | <b>33 670</b>   | <b>29 647</b>                               | <b>..</b> | <b>108 396</b>     | <b>87 110</b>   |
| <b>Expenses from transactions</b>  |  |                 |                              |                |   |                 |   |           |                    |                 |
| Employee expenses  | (3 883)                                | (5 258)         | (2 586)                      | (3 388)        | (2 729)   | (2 324)         | (4 569)                                     | ..        | (13 767)           | (10 970)        |
| Depreciation   | (5 725)                                | (4 615)         | (3 427)                      | (3 530)        | (5 276)   | (5 213)         | (4 290)                                     | ..        | (18 718)           | (13 358)        |
| Interest expense   | (1 863)                                | (1 575)         | (679)                        | (232)          | (3 920)   | (2 528)         | (86)  | ..        | (6 548)            | (4 335)         |
| Grant expenses   | (19 525)                               | (25 217)        | ..                           | ..             | (822)   | (17 823)        | (12 537)                                    | ..        | (32 884)           | (43 040)        |
| Other operating expenses   | (3 490)                                | (4 512)         | (1 328)                      | (1 112)        | (3 525)   | (3 198)         | (7 985)                                     | ..        | (16 328)           | (8 822)         |
| <b>Subtotal</b>  | <b>(34 486)</b>                        | <b>(41 177)</b> | <b>(8 020)</b>               | <b>(8 262)</b> | <b>(16 272)</b>                                 | <b>(31 086)</b> | <b>(29 467)</b>                             | <b>..</b> | <b>(88 245)</b>    | <b>(80 525)</b> |
| <b>Net result from transactions (net operating balance)</b>  | <b>11 011</b>                          | <b>(160)</b>    | <b>9 620</b>                 | <b>4 161</b>   | <b>(660)</b>                                    | <b>2 584</b>    | <b>180</b>                                  | <b>..</b> | <b>20 151</b>      | <b>6 585</b>    |
| <b>Other economic flows included in net result</b>   |  |                 |                              |                |   |                 |   |           |                    |                 |
| 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   | (3 329)                                | (140)           | (162)                        | (241)          | (2 830)   | (3 590)         | (800)                                       | ..        | (7 121)            | (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)   | (396)           | (1 239)                                     | ..        | (2 895)            | (2 048)         |
| <b>Net result from continuing operations</b>   | <b>2 158</b>                           | <b>943</b>      | <b>9 079</b>                 | <b>3 521</b>   | <b>(4 109)</b>                                  | <b>(696)</b>    | <b>(868)</b>                                | <b>..</b> | <b>6 260</b>       | <b>3 768</b>    |
| Net result from discontinued operations  | (315)                                  | 1 326           | 1 545                        | 2 530          | ..  | ..              | ..  | ..        | 1 230              | 3 856           |
| <b>Other economic flows – other comprehensive income</b>   |  |                 |                              |                |   |                 |   |           |                    |                 |
| Changes in physical asset revaluation surplus  | 5 061                                  | 1 209           | 773                          | 3 588          | (385)   | 28              | 1 954                                       | ..        | 7 403              | 4 825           |
| Changes to financial assets at fair value through other comprehensive income revaluation reserve                 | 30                                     | ..              | ..                           | ..             | ..  | ..              | ..  | ..        | 30                 | ..              |
| Changes to financial liability designated at fair value through profit or loss due to changes in own credit risk | 156                                    | 14              | 37                           | 94             | 34  | 22              | 33  | ..        | 260                | 130             |
| Share of net movement in revaluation surplus of joint ventures and associates                                    | 6 787                                  | 3 142           | 11 031                       | 9 496          | (4 679)   | (779)           | 835   | ..        | 13 974             | 11 859          |
| <b>Comprehensive result</b>  | <b>13 877</b>                          | <b>6 634</b>    | <b>22 465</b>                | <b>19 229</b>  | <b>(9 139)</b>                                  | <b>(1 425)</b>  | <b>1 954</b>                                | <b>..</b> | <b>29 157</b>      | <b>24 438</b>   |

- 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] 20X2, figures for the current financial year for the new technology administration output reflect the period from 1 July 20X1 to 31 August 20X1, figures for the comparative year are not adjusted. Figures for the period from 1 September 20X1 to 30 June 20X2 are reported by the Department of Cabinet Administration.
- (c) Based on the Administrative Arrangements Order [No. xxx] 20X1, figures for the current financial year for the R&D biological technology output reflect the period from 1 September 20X1 to 30 June 20X2. Figures for the period from 1 July 20X1 to 31 August 20X1, and figures for the comparative year, are reported by the Department of Natural Resources.

## Departmental outputs – Controlled assets and liabilities at 30 June 20X2 [AASB 1052.16]

(\$ thousand)

|                          | Strategic policy advice |                | IT&T services   |                 | New technology administration <sup>(a)</sup> |               | R&D biological technology <sup>(b)</sup> |           | Departmental total |                |
|--------------------------|-------------------------|----------------|-----------------|-----------------|--|---------------|--|-----------|--------------------|----------------|
|                          | 20X2                    | 20X1           | 20X2            | 20X1            | 20X2   | 20X1          | 20X2                                     | 20X1      | 20X2               | 20X1           |
| <b>Assets</b>            |                         |                |                 |                 |  |               |  |           |                    |                |
| Financial assets         | 77 617                  | 58 442         | 31 365          | 17 505          | ..   | 27 845        | 14 326                                   |           | 123 308            | 103 792        |
| Non-financial assets     | 40 363                  | 60 341         | 19 739          | 19 989          | ..   | 43 664        | 55 623                                   |           | 115 725            | 123 994        |
| <b>Total assets</b>      | <b>117 980</b>          | <b>118 783</b> | <b>51 104</b>   | <b>37 494</b>   | <b>..</b>                                    | <b>71 509</b> | <b>69 949</b>                            | <b>..</b> | <b>239 033</b>     | <b>227 786</b> |
| <b>Liabilities</b>       |                         |                |                 |                 |  |               |  |           |                    |                |
| <b>Total liabilities</b> | <b>37 433</b>           | <b>43 809</b>  | <b>99 034</b>   | <b>78 450</b>   | <b>..</b>                                    | <b>69 417</b> | <b>43 027</b>                            | <b>..</b> | <b>179 494</b>     | <b>191 676</b> |
| <b>Net assets</b>        | <b>80 547</b>           | <b>74 974</b>  | <b>(47 930)</b> | <b>(40 956)</b> | <b>..</b>                                    | <b>2 092</b>  | <b>26 922</b>                            | <b>..</b> | <b>59 539</b>      | <b>36 110</b>  |

## Notes:

- (a) Based on the Administrative Arrangements Order [No. xxx] 20X2, 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] 20X1, figures for the assets and liabilities for the R&D biological technology output for the current financial year are as at 30 June 20X2. 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 20X1. However, accounts and reports for this output for the purposes of the *Financial Management Act 1994* (FMA) were kept and provided from 1 September 20X1 as per the Administrative Arrangements Order [No. xxx] 20X1. 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 20X1 as per the Administrative Arrangements Order [No. xxx] 20X1.

## 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 9]**

For the financial year ended 30 June 20X2

(\$ thousand)

|  | <i>Strategic policy advice</i> |               | <i>IT&amp;T services</i> |              | <i>New technology administration<sup>(a)</sup></i> |               | <i>R&amp;D biological technology<sup>(b)</sup></i> |           | <i>Departmental total</i> |               |
|--|--------------------------------|---------------|--------------------------|--------------|--|---------------|--|-----------|---------------------------|---------------|
|  | 20X2                           | 20X1          | 20X2                     | 20X1         | 20X2   | 20X1          | 20X2   | 20X1      | 20X2                      | 20X1          |
| <b>Administered income from transactions</b>                                   |                                |               |                          |              |  |               |  |           |                           |               |
| 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         |
| <b>Total administered income from transactions</b>                             | <b>13 544</b>                  | <b>13 669</b> | <b>6 775</b>             | <b>6 106</b> | <b>14 265</b>                                      | <b>18 620</b> | <b>4 024</b>                                       | <b>..</b> | <b>38 608</b>             | <b>38 395</b> |
| <b>Administered expenses from transactions</b>                                 |                                |               |                          |              |  |               |  |           |                           |               |
| 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)      |
| <b>Total administered net result from transactions (net operating balance)</b> | <b>..</b>                      | <b>..</b>     | <b>..</b>                | <b>500</b>   | <b>..</b>  | <b>(500)</b>  | <b>..</b>  | <b>..</b> | <b>..</b>                 | <b>..</b>     |
| <b>Administered other economic flows included in administered net result</b>   |                                |               |                          |              |  |               |  |           |                           |               |
| Net gain/(loss) on financial instruments                                       | 253                            | (156)         | ..                       | ..           | ..   | ..            | ..   | ..        | 253                       | (156)         |
| Other gains/(losses) from other economic flows                                 | ..                             | ..            | ..                       | ..           | ..   | ..            | 225  | 88        | 225                       | 88            |
| <b>Administered net result</b>   | <b>253</b>                     | <b>(156)</b>  | <b>..</b>                | <b>500</b>   | <b>..</b>  | <b>(500)</b>  | <b>225</b>   | <b>88</b> | <b>478</b>                | <b>(68)</b>   |
| <b>Administered other economic flows – other comprehensive income</b>          |                                |               |                          |              |  |               |  |           |                           |               |
| <b>Items that will not be reclassified to administered net result</b>          |                                |               |                          |              |  |               |  |           |                           |               |
| Adjustment to accumulated surplus/(deficit) due to change in accounting policy | ..                             | 153           | ..                       | 201          | ..   | 243           | ..   | ..        | ..                        | 597           |
| Changes in physical asset revaluation surplus                                  | ..                             | ..            | ..                       | ..           | ..   | ..            | ..   | ..        | ..                        | ..            |
| <b>Total administered comprehensive result</b>                                 | <b>253</b>                     | <b>(3)</b>    | <b>..</b>                | <b>701</b>   | <b>..</b>  | <b>(257)</b>  | <b>225</b>   | <b>88</b> | <b>478</b>                | <b>529</b>    |

Notes:

(a) Based on the Administrative Arrangements Order [No. xxx] 20X2, 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] 20X2, figures for the income and expenses for the R&D biological technology output for the current financial year are as at 30 June 20X2. 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 9]**

For the financial year ended 30 June 20X2

(\$ thousand)

|  | Strategic policy advice |              | IT&T services |              | New technology administration <sup>(a)</sup> |               | R&D biological technology <sup>(b)</sup> |           | Departmental total |               |
|--|-------------------------|--------------|---------------|--------------|--|---------------|--|-----------|--------------------|---------------|
|  | 20X2                    | 20X1         | 20X2          | 20X1         | 20X2   | 20X1          | 20X2                                     | 20X1      | 20X2               | 20X1          |
| <b>Administered financial assets</b>                   |                         |              |               |              |  |               |  |           |                    |               |
| 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        |
| <b>Total administered financial assets</b>             | <b>6 340</b>            | <b>5 124</b> | <b>7 332</b>  | <b>4 542</b> | <b>..</b>                                    | <b>8 740</b>  | <b>7 652</b>                             | <b>..</b> | <b>21 324</b>      | <b>18 406</b> |
| <b>Administered non-financial assets<sup>(c)</sup></b> |                         |              |               |              |  |               |  |           |                    |               |
| Inventories  | ..                      | ..           | 243           | ..           | ..   | 1 894         | 1 109                                    | ..        | 1 352              | 1 894         |
| Prepayments  | 578                     | 872          | 326           | 537          | ..   | 901           | 783                                      | ..        | 1 687              | 2 310         |
| <b>Total administered non-financial assets</b>         | <b>578</b>              | <b>872</b>   | <b>569</b>    | <b>537</b>   | <b>..</b>                                    | <b>2 795</b>  | <b>1 892</b>                             | <b>..</b> | <b>3 039</b>       | <b>4 204</b>  |
| <b>Total administered assets</b>                       | <b>6 918</b>            | <b>5 996</b> | <b>7 901</b>  | <b>5 079</b> | <b>..</b>                                    | <b>11 535</b> | <b>9 544</b>                             | <b>..</b> | <b>24 363</b>      | <b>22 610</b> |
| <b>Administered liabilities<sup>(d)</sup></b>          |                         |              |               |              |  |               |  |           |                    |               |
| 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         |
| <b>Total administered liabilities</b>                  | <b>3 379</b>            | <b>3 320</b> | <b>1 464</b>  | <b>1 613</b> | <b>..</b>                                    | <b>2 549</b>  | <b>2 328</b>                             | <b>..</b> | <b>7 171</b>       | <b>7 482</b>  |
| <b>Total administered net assets</b>                   | <b>3 539</b>            | <b>2 676</b> | <b>6 437</b>  | <b>3 466</b> | <b>..</b>                                    | <b>8 986</b>  | <b>7 216</b>                             | <b>..</b> | <b>17 192</b>      | <b>15 128</b> |

## 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 20X1 to 31 August 20X1.
- (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 20X1. Administered items for the prior year and the current year to 31 August 20X1 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) The Department of Treasury and Finance in its Annual Financial Statements discloses 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 summary of the identity and purpose of each of the department's major activities (outputs) undertaken during the reporting period
- the objectives of the department, if not disclosed elsewhere in the annual report
- 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:

- The objectives of the department
- The likely users of the general-purpose financial statements
- The activity level that may be relevant to users' assessments of the performance of the department
- 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 the [Resource Management Framework on the DTF website](#).

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.

**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 9 *Departmental Disclosure of Administered Assets and Liabilities by Activity* 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 9]:** 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.

While the investment in the relevant controlled entities is required to be recorded by the portfolio department as an administered item, DTF discloses the State's combined investment in controlled entities and the superannuation liabilities (related to departmental employees) in its annual financial statements. Departments are not required to show these items in their administered notes but are advised to include footnotes as illustrated, stating that this information is available in the DTF's annual financial report.

AASB 1050 encourages, but does not require, the allocation of administered assets and liabilities to outputs. However, FRD 9 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 9]:** 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.

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#### 4. DISAGGREGATED FINANCIAL INFORMATION BY OUTPUT

### 4.3 Restructuring of administrative arrangements [AASB 1052.15(a), AASB 1004.54-58]

In August 20X1, the Government issued an administrative order restructuring some of its activities via machinery of government changes, taking effect from 1 September 20X1. 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<br/>(Jul-Aug 20X1)</i> | <i>Department of Technology<br/>(Sep 20X1 - Jun 20X2)</i> | <i>Total</i> |
|---|---|---|--------------|
| <b>Controlled income and expenses</b>                           |   |   |              |
| Income  | 4 556   | 19 494  | 24 050       |
| Expenses  | (4 375)   | (18 722)  | (23 097)     |
| <b>Administered income and expenses</b>                         |   |   |              |
| Income  | 541   | 2 314   | 2 855        |
| Expenses  | (519)   | (2 222)   | (2 741)      |

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.

#### Restructuring of administrative arrangements [AASB 1052.15(a), AASB 1004.54-58]

(\$ thousand)

|   | <i>20X2<br/>Transfer in:<br/>Output – R&amp;D biological<br/>technology</i> | <i>20X2<br/>Transfer out:<br/>Output – new technology<br/>administration</i> |
|---|---|--|
| <b>Assets</b>                                     |   |  |
| 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  | ..   |
| <b>Liabilities</b>                                |   |  |
| Borrowings  | 4 104   | (31 373)   |
| Payables  | 2 094   | (5 675)  |
| Provisions  | 2 075   | (11 149)   |
| Other liabilities                                 | 168   | (400)  |
| <b>Net assets recognised/(transferred)</b>        | <b>19 617</b>   | <b>(20 097)</b>  |
| <b>Net capital contribution from the Crown</b>    |   | <b>(480)</b>   |

## 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 119 *Transfers through contributed capital* as outlined below.

### Evidence and timing of Government decisions

#### *Parliamentary appropriations [FRD 119. 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 119 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 the 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 affect 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
- 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 20X1. However there is a requirement in the Administrative Arrangements Order (No. xxx) 20X1 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 20X1 (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](http://www.gazette.vic.gov.au)

or can be ordered from:

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Email [gazette@bluestargroup.com.au](mailto:gazette@bluestargroup.com.au)

### 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 119 for the minimum details to be included to meet the designation requirements.

## 4. DISAGGREGATED FINANCIAL INFORMATION BY OUTPUT

### Insufficient contributed capital for distributions to owners (reclassification of equity)

Under FRD 119, the Chief Finance and Accountable Officers can reclassify equity without further ministerial approval to the extent required to affect the following distributions to owners:

- where the transferor has insufficient contributed capital to transfer an asset or net assets
- where a transferee has insufficient contributed capital to cover the receipt of a liability or net liabilities.

In accordance with the *Guidance on the application of FRD 103 Non-financial physical assets*, 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 affect 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 brief description of the nature of the output transferred
- The date of transfer of the output
- The identity of the department(s) to whom the output has been transferred/received
- The details about any related legislation that was enacted to affect the transfer.

## 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

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**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

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### 5.1 Total property, plant and equipment

(\$ thousand)

| Source reference | Gross carrying amount                             |                | Accumulated depreciation |                 | Net carrying amount |                |                |
|------------------|---|----------------|--------------------------|-----------------|---------------------|----------------|----------------|
|                  | 20X2  | 20X1           | 20X2                     | 20X1            | 20X2                | 20X1           |                |
| AASB 116.73 (d)  | Land at fair value <sup>(a)</sup>                 | 4 562          | 3 521                    | ..              | ..                  | 4 562          | 3 521          |
| AASB 116.73 (d)  | Buildings at fair value                           | 84 698         | 79 447                   | (3 902)         | (1 417)             | 80 796         | 78 030         |
| AASB 116.73 (d)  | Plant, equipment and vehicles at fair value       | 52 455         | 59 793                   | (916)           | (16 684)            | 51 539         | 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          |
|                  | Cultural assets at fair value                     | 2 764          | ..                       | ..              | ..                  | 2 764          | ..             |
|                  | <b>Net carrying amount</b>                        | <b>154 651</b> | <b>153 888</b>           | <b>(10 337)</b> | <b>(18 281)</b>     | <b>144 314</b> | <b>135 607</b> |

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.

## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

The following tables are subsets of buildings, and plant and equipment by right-of-use assets and service concession assets.

### 5.1.1 Total right-of-use assets: buildings, plant, equipment and vehicles.

[AASB 16.47(a)(ii)]

(\$ thousand)

| Source reference |                               | Gross carrying amount |                         | Accumulated depreciation |               | Net carrying amount |               |
|------------------|-------------------------------|-----------------------|-------------------------|--------------------------|---------------|---------------------|---------------|
|                  |                               | 20X2                  | 20X1                    | 20X2                     | 20X1          | 20X2                | 20X1          |
|                  |                               | AASB 116.73 (d)       | Buildings at fair value | 10 774                   | 910           | 9 864               | <b>10 774</b> |
|                  | Plant, equipment and vehicles | 4 579                 | 916                     | 3 663                    | <b>4 579</b>  | <b>458</b>          | <b>4 121</b>  |
|                  | Infrastructure at fair value  | 4 744                 | 552                     | 4 192                    | 4 744         | 276                 | 4 468         |
|                  | <b>Net carrying amount</b>    | <b>20 097</b>         | <b>2 378</b>            | <b>17 719</b>            | <b>20 097</b> | <b>1 493</b>        | <b>18 604</b> |

(\$ thousand)

| Source reference | Buildings  | Plant, equipment and vehicles at fair value | Infrastructure at fair value |              |
|------------------|--|---|------------------------------|--------------|
| AASB 16.54       | <b>Opening balance – 1 July 20X1</b>               | <b>10 774</b>                               | <b>4 121</b>                 | <b>4 468</b> |
| AASB 16.53 (h)   | Additions  | ..  | ..                           | ..           |
|                  | Disposals  | ..  | ..                           | ..           |
| AASB 16.53 (a)   | Depreciation                                       | (302)                                       | (458)                        | (276)        |
| AASB 16.53 (j)   | <b>Closing balance – 30 June 20X2</b>              | <b>10 472</b>                               | <b>3 663</b>                 | <b>4 192</b> |
|                  | <b>Opening balance – 1 July 20X0<sup>(a)</sup></b> | <b>10 925</b>                               | <b>4 579</b>                 | <b>4 744</b> |
|                  | Additions  | ..  | ..                           | ..           |
|                  | Disposals  | ..  | ..                           | ..           |
|                  | Depreciation                                       | (759)                                       | (458)                        | (276)        |
|                  | <b>Closing balance – 30 June 20X1</b>              | <b>10 166</b>                               | <b>4 121</b>                 | <b>4 468</b> |

### 5.1.2 Total service concession assets

(\$ thousand)

| Source reference |  | Gross carrying amount |                         | Accumulated depreciation |        | Net carrying amount |       |
|------------------|--|-----------------------|-------------------------|--------------------------|--------|---------------------|-------|
|                  |  | 20X2                  | 20X1                    | 20X2                     | 20X1   | 20X2                | 20X1  |
|                  |  | AASB 116.73 (d)       | Buildings at fair value | 58 800                   | 60 000 | 2 400               | 1 200 |

**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 103 Revised]

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.

## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

### Right-of-use asset acquired by lessees – Initial measurement

The Department recognises a right-of-use asset and a lease liability at the lease commencement date [AASB 16.23]

The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for:

- any lease payments made at or before the commencement date less any lease incentive received [AASB 16.24(b)]
- any initial direct costs incurred [AASB 16.24(c)]
- an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. [AASB 16.24(d)]

### Service concession assets (Under AASB 1059 – Service Concession Arrangements: Grantors) – Initial measurement

The Department initially recognises service concession assets at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*. [AASB 1059.7]

Subsequent measurement: Property, plant and equipment (PPE) as well as right-of-use assets under leases and service concession assets 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.

### Right-of-use asset – Subsequent measurement

The Department depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use assets are also subject to revaluation. [AASB 16.32 and AASB 16.35]

In addition, the right-of-use asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability. [AASB 16.33]

### Service concession assets – Subsequent measurement

Service concession assets are subject to revaluation as required by FRD 103, however as at 30 June 20X1 no revaluation has occurred. When revalued, the fair value of service concession assets will be determined based on current replacement cost. [AASB 1059.9(b)]

**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)]

**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 reflects 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.

### Impairment of property, plant and equipment

The recoverable amount of primarily non-cash-generating assets of not-for-profit entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 *Fair Value Measurement*, with the consequence that AASB 136 does not apply to such assets that are regularly revalued.

#### 5.1.3 Depreciation and amortisation

| Charge for the period                      | (\$ thousand) |               |
|--|---------------|---------------|
|  | 20X2          | 20X1          |
| Buildings <sup>(a)</sup>                   | 3 280         | 1 807         |
| Plant, equipment and vehicles              | 13 034        | 9 550         |
| Infrastructure <sup>(a)</sup>              | 419           | 240           |
| Road, infrastructure and earthworks        | 514           | 207           |
| Intangible produced assets (amortisation)  | 1 471         | 1 554         |
| <b>Total depreciation and amortisation</b> | <b>18 718</b> | <b>13 358</b> |

Note:

(a) Of the amounts included in 'buildings', and 'infrastructure' categories, \$XXX [\$XXX in 20X1] and \$XXX [\$XXX in 20X1] respectively related to assets contracted under public private partnership (PPP) arrangements. [Recommendation 13 PAEC Report on the 2011-12 Financial and Performance Outcomes]

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 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)     |
|---|-------------|
| Asset   | 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.]

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term. Where the Department obtains ownership of the underlying leased asset or if the cost of the right-of-use asset reflects that the entity will exercise a purchase option, the entity depreciates the right-of-use asset over its useful life.

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]

5.1.4 Reconciliation of movements in carrying amount of property, plant and equipment <sup>(a)</sup>

(\$ 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          |                |
|--------------------|--------------------|--------------|-------------------------|---------------|---|---------------|-----------------------------------|--------------|------------------------------|--------------|---|--------------|-------------------------------|-------|----------------|----------------|
|                    | 20X2               | 20X1         | 20X2                    | 20X1          | 20X2  | 20X1          | 20X2                              | 20X1         | 20X2                         | 20X1         | 20X2  | 20X1         | 20X2                          | 20X1  | 20X2           | 20X1           |
| AASB116.73 (d)     | <b>3 521</b>       | <b>3 120</b> | <b>78 030</b>           | <b>76 583</b> | <b>43 109</b>                               | <b>57 761</b> | <b>1 023</b>                      | <b>489</b>   | <b>4 931</b>                 | <b>3 364</b> | <b>4 993</b>                                      | <b>2 499</b> | ..                            | ..    | <b>135 607</b> | <b>143 816</b> |
| AASB116.73         | 348                | 525          | ..                      | 325           | 33  | 16            | ..                                | ..           | ..                           | ..           | 109   | ..           | ..                            | ..    | 490            | 866            |
| AASB116.73         | (142)              | (123)        | ..                      | ..            | (110)                                       | (15)          | ..                                | ..           | ..                           | ..           | ..  | ..           | (154)                         | ..    | (406)          | (138)          |
| AASB116.73 (e)(i)  | 1 756              | 767          | 2 802                   | 1 827         | 6 333                                       | 1 081         | 154                               | 1 781        | 1 898                        | 1 838        | 1 872   | 3 164        | 675                           | 540   | 15 490         | 10 998         |
| AASB116.73 (e)(ii) | ..                 | (863)        | ..                      | (2 866)       | (442)                                       | (949)         | ..                                | ..           | ..                           | (378)        | ..  | (95)         | ..                            | ..    | (442)          | (5 151)        |
| AASB116.73 (e)(ix) | ..                 | ..           | ..                      | 900           | ..  | ..            | (107)                             | (1 247)      | 107                          | 347          | ..  | ..           | ..                            | ..    | ..             | ..             |
| AASB116.73 (e)(iv) | 942                | 1 564        | 6 125                   | 1 425         | 5 231                                       | ..            | ..                                | ..           | (4 576)                      | ..           | (112)   | ..           | 293                           | ..    | 7 903          | 2 989          |
| AASB116.73 (e)(ix) | ..                 | ..           | (1 063)                 | 1 494         | ..  | ..            | ..                                | ..           | ..                           | ..           | ..  | ..           | ..                            | ..    | (1 063)        | 1 494          |
| AASB116.73(e)(iii) | 125                | ..           | 4 197                   | ..            | 15 946                                      | ..            | ..                                | ..           | 124                          | ..           | ..  | ..           | ..                            | ..    | 20 392         | ..             |
| AASB116.73(e)(iii) | 789                | ..           | 3 856                   | ..            | 10 343                                      | ..            | 10                                | ..           | 1 040                        | ..           | 568   | ..           | 1 950                         | ..    | 18 556         | ..             |
| AASB116.73 (e)(ii) | (2 024)            | ..           | (9 398)                 | ..            | (13 702)                                    | ..            | (343)                             | ..           | (1 100)                      | ..           | (4 445)   | ..           | ..                            | ..    | (31 012)       | ..             |
| AASB116.73(e)(vii) | ..                 | ..           | (3 280)                 | (607)         | (13 034)                                    | (9 550)       | ..                                | ..           | (419)                        | (240)        | (514)   | (207)        | ..                            | ..    | (17 247)       | (10 604)       |
| AASB116.73 (e)(ii) | (753)              | (1 469)      | (473)                   | (1 051)       | (2 168)                                     | (5 235)       | (24)                              | ..           | (321)                        | ..           | (215)   | (368)        | ..                            | (540) | (3 954)        | (8 663)        |
| AASB116.73 (d)     | <b>4 562</b>       | <b>3 521</b> | <b>80 796</b>           | <b>78 030</b> | <b>51 539</b>                               | <b>43 109</b> | <b>713</b>                        | <b>1 023</b> | <b>1 684</b>                 | <b>4 931</b> | <b>2 256</b>                                      | <b>4 993</b> | <b>2 764</b>                  | ..    | <b>144 314</b> | <b>135 607</b> |

## Note

- (a) 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 20X2.

## Guidance – Property, plant and equipment [REVISED]

### Measurement of non-financial physical assets

FRD 103 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 103 determines the revaluation cycle to occur every five years. 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 the application of FRD 103 Non-financial physical assets](#)'.

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.

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.

*AASB 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* amended AASB 13 by adding Appendix F *Australian implementation guidance for not-for-profit public sector entities*. Appendix F explains and illustrates the application of the principles in AASB 13 on developing unobservable inputs and the application of the cost approach. These clarifications are mandatorily applicable annual reporting periods beginning on or after 1 January 2024.

FRD 103 permits Victorian public sector entities to apply Appendix F of AASB 13 in their next scheduled formal asset revaluation or interim revaluation (whichever is earlier). All annual fair value assessments thereafter must continue compliance with Appendix F. [FRD 103.4.5A]

Preparers should disclose whether they have applied the Appendix F clarifications in the current financial year and disclose the financial impact/consequences of such application (if any). If there are no material impacts, a statement should be made to that effect. Entities may wish to include this under Section 8.3.2 Fair value determination: Non-financial physical assets.

AASB 2022-10 applies prospectively (in the same way as a change in accounting estimates). In accordance with paragraphs 37-40, of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, prospective application would require an entity to:

- recognise any change in asset values by adjusting the carrying amount of the affected assets and equity items (e.g.: the corresponding revaluation reserve or profit or loss as appropriate) in the period of the change
- disclose the nature and amount of the change in asset values 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. [AASB 13.BC263-266]

## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Refer to sample disclosures below which have been included for guidance.

| Scenario  | Sample disclosure  |
|---|--|
| Scenario 1 – The Department applied AASB 2022-10 in the current period with no material impact        | The Department applied AASB 2022-10, including Appendix F of AASB 13 and the requirements of FRD 103 prospectively as part of the current scheduled formal revaluation process. There was no material impact to the financial statements.  |
| Scenario 2 – The Department applied AASB 2022-10 in the current period resulting in a material impact | The Department applied AASB 2022-10, including Appendix F of AASB 13 and the requirements of FRD 103 prospectively as part of the current scheduled formal revaluation process. This resulted in an increase of \$650m in the property, plant and equipment balance and physical asset revaluation surplus in the current period.  |
| Scenario 3 – The Department will apply AASB 2022-10 in future years in accordance with FRD 103        | In accordance with FRD 103, the Department will apply Appendix F of AASB 13 prospectively in its next scheduled formal revaluation in 20X5 or interim revaluation process (whichever is earlier). [Depending on the assessment of the impacts of the amendment, entities should disclose the estimated impact. In case the impact is not known or reasonably estimable, a statement to that effect]. |

**Treatment of accumulated depreciation on revaluation:** To ensure consistency on a whole of State reporting basis, FRD 103 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).

**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                        | 20X2          | 20X1         |
| AASB 140.76                             | <b>5 029</b>  | <b>5 233</b> |
| AASB 140.76 (a)                         | 282           | 1 838        |
| AASB 140.76 (b)                         | 1 287         | ..           |
| AASB 140.76 (c)                         | (1 822)       | (998)        |
| AASB 140.76 (d)                         | (3 485)       | 450          |
| AASB 140.76 (f)                         | ..            | (1 494)      |
| AASB 140.76 (f)                         | 1 063         | ..           |
| <b>Balance at end of financial year</b> | <b>2 354</b>  | <b>5 029</b> |

**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 the 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 107]

### 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:

- property held for strategic purposes
- 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 107]

**Responsible Body** means:

- in relation to an agency with a statutory board or equivalent governing body, that board or governing body
- 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)]

**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 107]

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.

## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

In addition, an entity shall disclose:

- a description of the investment property
- an explanation of why fair value cannot be determined reliably
- if possible, the range of estimates in which fair value is highly likely to lie
- On disposal of investment property not carried at fair value, an entity must also disclose:
  - the fact that the entity has disposed of investment property not carried at fair value
  - the carrying amount of that investment property at the time of sale
  - 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 (e.g. 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:

- the amounts recognised in the net result for:
  - rental income from investment property [AASB 140.75(f)(i)]
  - direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period [AASB 140.75(f)(ii)]
  - direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period [AASB 140.75(f)(iii)]
- the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal [AASB 140.75(g)]
- 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:

- Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset
  - Additions resulting from acquisitions through business combinations
  - Assets classified as held for sale or included in a disposal group in accordance with AASB 5 and other disposals
  - Net gains or losses from fair value adjustments
  - 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
  - Transfers to and from inventories and owner-occupied property
  - Other changes [AASB 140.76]
-

### 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<br>(\$ thousand) |              |           |
|------------------------------|--------------------|--------------|-------------|----------------------------------|--------------|-----------|
|                              |                    | 20X2         | 20X1        | 20X2                             | 20X1         |           |
|                              |                    |              |             |                                  |              |           |
| AASB 141.41 and 42           | Timber volume      | Cubic metres | 5 000       | ..                               | 2 749        | ..        |
|                              | Breeding livestock | Headcount    | 236         | ..                               | 1 285        | ..        |
| <b>Total carrying amount</b> |                    |              | <b>n.a.</b> |                                  | <b>4 034</b> | <b>..</b> |

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 20X2, the Department had commitments for the acquisition of breeding livestock amounting to \$150 000 (20X1: \$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        |           |
|--|--------------|-----------|----------------|-----------|--------------|-----------|
|  | 20X2         | 20X1      | 20X2           | 20X1      | 20X2         | 20X1      |
| Carrying amount at beginning of period                           | ..           | ..        | ..             | ..        | ..           | ..        |
| AASB 141.50 (b) Increases due to acquisition/transfers in        | 2 545        | ..        | 657            | ..        | 3 202        | ..        |
| AASB 141.50 (b) Increases due to purchases                       | ..           | ..        | 856            | ..        | 856          | ..        |
| AASB 141.50 (a) Increase/decrease due to fair value adjustment   | 1 454        | ..        | 22             | ..        | 1 476        | ..        |
| AASB 141.50 (c) Decreases attributable to disposal/transfers out | ..           | ..        | (250)          | ..        | (250)        | ..        |
| AASB 141.50 (d) Decreases due to harvest                         | (1 250)      | ..        | ..             | ..        | (1 250)      | ..        |
| Other changes  | ..           | ..        | ..             | ..        | ..           | ..        |
| <b>Carrying amount at end of period</b>                          | <b>2 749</b> | <b>..</b> | <b>1 285</b>   | <b>..</b> | <b>4 034</b> | <b>..</b> |

### Guidance – Biological assets

An entity shall disclose:

- a description of each group of biological assets [AASB 141.41]
- 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]
- the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest [AASB 13.93]
- 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)]
- the amount of commitments for the development or acquisition of biological assets [AASB 141.49(b)]
- financial risk management strategies related to agricultural activity. [AASB 141.49(c)]

If not disclosed elsewhere in the financial statements, an entity shall also provide a description of:

- the nature of its activities involving each group of biological assets [AASB 141.46(a)].
- 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(b)].

### 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 description of the biological assets
- An explanation of why fair value cannot be measured reliably
- If possible, the range of estimates in which fair value is highly likely to lie
- The depreciation method used
- The useful lives or the depreciation rates used
- 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
- 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:

- impairment losses
- reversals of impairment losses
- depreciation [AASB 141.55]

## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

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 description of the biological assets
- an explanation of why fair value has become reliably measurable
- the effect of the change. [AASB 141.56]

### Government grants

In relation to agricultural activity covered by this standard, an entity shall disclose:

- the nature and extent of government grants recognised in the financial statements
- unfulfilled conditions and other contingencies attaching to government grants
- significant decreases expected in the level of government grants. [AASB 141.57]

## 5.4 Intangible assets

| Source reference     | (\$ thousand)   |                |                |                |                |
|----------------------|---|----------------|----------------|----------------|----------------|
|                      | Computer software   |                | Total          |                |                |
|                      | 20X2  | 20X1           | 20X2           | 20X1           |                |
|                      | <b>Gross carrying amount</b>                                  |                |                |                |                |
| AASB 138.118 (c)     | <b>Opening balance</b>  | <b>12 295</b>  | <b>10 875</b>  | <b>12 295</b>  | <b>10 875</b>  |
| AASB 138.118 (e)(i)  | Additions   | 2 655          | 2 540          | 2 655          | 2 540          |
| 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)     | <b>Closing balance</b>  | <b>12 216</b>  | <b>12 295</b>  | <b>12 216</b>  | <b>12 295</b>  |
| FRD 109              | <b>Accumulated depreciation, amortisation and impairment</b>  |                |                |                |                |
|                      | <b>Opening balance</b>  | <b>(2 848)</b> | <b>(3 129)</b> | <b>(2 848)</b> | <b>(3 129)</b> |
| AASB 138.118 (c)     | Amortisation of intangible produced assets <sup>(a)</sup>     | (1 471)        | (1 554)        | (1 471)        | (1 554)        |
| AASB 138.118 (e)(vi) | Amortisation of intangible non-produced assets <sup>(a)</sup> | ..             | ..             | ..             | ..             |
| 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 <sup>(b)</sup>        | (2 010)        | ..             | (2 010)        | ..             |
| AASB 138.118 (e)(v)  | Reversals of impairment losses charged to net result          | ..             | 585            | ..             | 585            |
| AASB 138.118 (c)     | <b>Closing balance</b>  | <b>(4 242)</b> | <b>(2 848)</b> | <b>(4 242)</b> | <b>(2 848)</b> |
|                      | <b>Net book value at end of financial year</b>                | <b>7 974</b>   | <b>9 447</b>   | <b>7 974</b>   | <b>9 447</b>   |

#### 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.

## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

### 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 begin 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, including:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- an intention to complete the intangible asset and use or sell it
- the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- the ability to measure reliably the expenditure attributable to the intangible asset during its development. [AASB 138.57]

### Service concession intangible asset

The service concession intangible asset has an indefinite useful life because its value does not diminish with use and it can be used multiple times over an extended period of time with no foreseeable limit. As a result, a finite life cannot be determined. [AASB 138.122(a)]

More information about the service concession intangible asset is outlined in section 7.5.3.

### 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 three and five 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.

Service concession intangible assets recognised applying AASB 1059 are subsequently measured at fair value (current replacement cost). [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 \$-7.97 million (20X1: \$9.45 million). Its useful life is five years and will be fully amortised in 2030. [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

For intangible assets acquired by way of a government grant and initially recognised at fair value, an entity shall disclose:

- the fair value initially recognised for these assets [AASB 138.122(c)(i)]
- their carrying amount [AASB 138.122(c)(ii)]
- whether they are measured after recognition under the cost model or the revaluation model. [AASB 138.122(c)(iii)]

### Additional disclosures for intangible assets whose title is restricted

The entity is required to disclose the existence and carrying amounts of intangible assets whose title is restricted.

[AASB 138.122(d)]

### Additional disclosures for intangible assets pledged as security for liabilities

The entity is required to disclose the carrying amounts of intangible assets pledged as security for liabilities.

[AASB 138.122(d)]

### 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:

- a description of any fully amortised intangible asset that is still in use
- 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:

- By class of intangible assets:
  - (i) the effective date of the revaluation
  - (ii) the carrying amount of revalued intangible assets
  - (iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model.
- 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
- The methods and significant assumptions applied in estimating the assets' fair values. [AASB 13.93]

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]

## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

### 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:

- the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team
- 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
- technical, technological, commercial or other types of obsolescence
- 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
- expected actions by competitors or potential competitors
- 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
- 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
- whether the useful life of the asset is dependent on the useful life of other assets of the entity. [AASB 138.90]

### Internal use software

Capitalisation threshold: FRD 109 *Intangible assets* 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. Additionally, in determining the capitalisation threshold an entity should consider:

- 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)
- 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):

- Preliminary project stage – costs to be expensed
- Application development stage – costs to be capitalised or expensed
- 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.

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## 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 [date], 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 [date]. [AASB 12.21(a)]

#### Details of material associates and joint ventures [AASB 12.21(b)]

(\$ million)

| Name of entity                        | Country of incorporation | Measurement method | Ownership interest |      | Published fair value |       |
|---------------------------------------|--------------------------|--------------------|--------------------|------|----------------------|-------|
|                                       |                          |                    | 20X2               | 20X1 | 20X2                 | 20X1  |
| <b>Associate</b>                      |                          |                    |                    |      |                      |       |
| New Technology Pty Ltd <sup>(a)</sup> | Australia                | Equity method      | 35                 | 35   | 6 566                | 5 351 |
| <b>Joint venture</b>                  |                          |                    |                    |      |                      |       |
| Technology Supply Pty Ltd             | Australia                | Equity method      | ..                 | 25   | n.a.                 | n.a.  |

Note:

(a) As at 30 June 20X2, 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 20X2.

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.

## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

### New Technology Pty Ltd – Associate

(\$ thousand)

| Source reference        |   | 20X2           | 20X1           |
|-------------------------|---|----------------|----------------|
|                         | <b>Summarised balance sheet</b>                                   |                |                |
| AASB 12.B12 (b)(i)      | Current assets  | 6 224          | 4 706          |
| AASB 12.B12 (b)(ii)     | Non-current assets  | 14 524         | 13 043         |
|                         | <b>Total assets</b>   | <b>20 748</b>  | <b>17 749</b>  |
| AASB 12.B12(b)(iii)     | Current liabilities   | (1 778)        | (1 345)        |
| AASB 12.B12 (b)(iv)     | Non-current liabilities   | (4 150)        | (3 138)        |
|                         | <b>Total liabilities</b>  | <b>(5 928)</b> | <b>(4 483)</b> |
|                         | <b>Net assets</b>   | <b>14 820</b>  | <b>13 266</b>  |
|                         | <b>Summarised operating statement</b>                             |                |                |
| 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            |
|                         | <b>Net result</b>   | <b>3 014</b>   | <b>1 863</b>   |
| AASB 12.B12(b)(viii)    | Other economic flows – other comprehensive income                 | 743            | 800            |
| AASB 12.B12 (b)(ix)     | <b>Total comprehensive income</b>                                 | <b>3 757</b>   | <b>2 663</b>   |
| AASB 12.B14 (b)         | <b>Movements in carrying amount of interests in the associate</b> |                |                |
|                         | Carrying amount at the beginning of the year                      | 4 643          | 4 262          |
| AASB 12.B12(b)(vi)(vii) | <b>Department's share of associate's operating statement:</b>     |                |                |
|                         | 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)          |
|                         | <b>Carrying amount at the end of the year</b>                     | <b>5 187</b>   | <b>4 643</b>   |

### Technology Supplies Pty Ltd– Joint venture

(\$ thousand)

| Source reference        |  | 20X2      | 20X1           |
|-------------------------|--|-----------|----------------|
|                         | <b>Summarised balance sheet</b>  |           |                |
|                         | <b>Current assets:</b>   |           |                |
| AASB 12.B12 (b)(i)      | Cash and cash equivalent   | ..        | 1 212          |
| AASB 12.B13 (a)         | Other current assets (excluding cash)  | ..        | 2 467          |
| AASB 12.B12 (b)(ii)     | Total non-current assets   | ..        | 5 701          |
|                         | <b>Total assets</b>  | <b>..</b> | <b>9 380</b>   |
|                         | <b>Current liabilities:</b>  |           |                |
| AASB 12.B12(b)(iii)     | Financial liabilities (excluding payables, provisions)                             | ..        | (300)          |
| AASB 12.B13 (b)         | Other non-financial liabilities (including payables, provisions)                   | ..        | (751)          |
|                         | <b>Non-current liabilities:</b>  |           |                |
|                         | Financial liabilities (excluding payables, provisions)                             | ..        | (1 150)        |
|                         | Other non-financial liabilities (including payables, provisions)                   | ..        | (1 303)        |
|                         | <b>Total liabilities</b>   | <b>..</b> | <b>(3 504)</b> |
|                         | <b>Net assets</b>  | <b>..</b> | <b>5 876</b>   |
|                         | <b>Summarised operating statement</b>  |           |                |
| AASB 12.B12 (b)(v)      | Revenue  | ..        | 9 055          |
| AASB 12.B13 (e)         | Interest income  | ..        | 350            |
| AASB 12.B13 (d)         | Depreciation   | ..        | (265)          |
| AASB 12.B13 (f)         | Interest expense   | ..        | (1 250)        |
|                         | Total income from transactions   | ..        | 7 890          |
| AASB 12.B12 (b)(vi)     | Net result from continuing operation   | ..        | 2 536          |
| AASB 12.B12(b)(vii)     | Net result from discontinuing operation  | ..        | 447            |
|                         | <b>Net result</b>  | <b>..</b> | <b>2 983</b>   |
| AASB 12.B12(b)(viii)    | Other economic flows – other comprehensive income                                  | ..        | ..             |
| AASB 12.B12(b)(ix)      | <b>Total comprehensive income</b>  | <b>..</b> | <b>2 983</b>   |
| AASB 12.B14 (b)         | <b>Movements in carrying amount of interests in the joint venture</b>              |           |                |
|                         | Carrying amount at the beginning of the year                                       | ..        | 1 104          |
| AASB 12.B12(b)(vi)(vii) | <b>Department's share of interests in the joint venture's operating statement:</b> |           |                |
|                         | 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)          |
|                         | <b>Carrying amount at the end of the year</b>                                      | <b>..</b> | <b>1 469</b>   |

## 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:

- that 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.

Specifically, an entity shall disclose, for example, significant judgements and assumptions made in determining that it either:

- does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity
- 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:

- for each joint arrangement and associate that is material to the reporting entity:
  - the name of the joint arrangement or associate
  - the nature of the entity's relationship with the joint arrangement or associate (e.g. by describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities)
  - 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
  - the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).
- for each joint venture and associate that is material to the reporting entity:
  - whether the investment in the joint venture or associate is measured using the equity method or at fair value
  - summarised financial information about the joint venture or associate as specified in paragraphs B12 and B13 of AASB 12
  - 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.
- financial information as specified in paragraph B16 about the entity's investments in joint ventures and associates that are not individually material separately:
  - in aggregate for all individually immaterial joint ventures
  - in aggregate for all individually immaterial associates.

## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

### Risks associated with an entity's interests in joint ventures and associates [AASB 12.23]

An entity shall disclose:

- commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs B18–B20 [AASB 12.23(a)].
- in accordance with AASB 137, 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. [AASB 12.23(a)].

### 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':

- profit or loss from continuing operations
- post-tax profit or loss from discontinued operations
- other comprehensive income
- 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:

- the date of the end of the reporting period of the financial statements of that joint venture or associate
- 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.

### 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:

- 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*.
- 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:

- the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture
  - the carrying amount of the investment at the date the equity method was discontinued.
- 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 20X1-X2 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 [AASB 10 Consolidated Financial Statements checklist – Control analysis for Victorian public sector entities on the DTF website](#) 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, 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. Please refer to [Interests in subsidiary and unconsolidated structured entities on the DTF website](#) for more information.

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## 5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

### 5.6 Investments and other financial assets

|                  | (\$ thousand)   |               |
|------------------|---|---------------|
| Source reference | 20X2  | 20X1          |
| AASB 101.61      | <b>Current investments and other financial assets</b>     |               |
|                  | <b>Term deposits: <sup>(a)</sup></b>                      |               |
|                  | 1 000   | 750           |
|                  | 941   | 2 443         |
|                  | <b>Debt securities: <sup>(b)</sup></b>                    |               |
|                  | 778   | 406           |
|                  | 220   | 340           |
|                  | 565   | ..            |
|                  | <b>3 504</b>  | <b>3 939</b>  |
| AASB 101.61      | <b>Non-current investments and other financial assets</b> |               |
|                  | Equities and managed investment schemes:                  |               |
|                  | 1 614   | 1 492         |
|                  | 322   | 538           |
|                  | 229   | 2 149         |
|                  | <b>Debt securities:</b>                                   |               |
|                  | 3 823   | 2 409         |
|                  | 455   | 2 195         |
|                  | 1 880   | 1 880         |
|                  | 1 300   | 192           |
|                  | <b>Term deposits: <sup>(a)</sup></b>                      |               |
|                  | 949   | 1 937         |
|                  | <b>10 572</b>   | <b>12 792</b> |
|                  | <b>14 076</b>   | <b>16 731</b> |

**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 measures all its listed equities and managed investment schemes at fair value through net result. 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. The Department designated all its unlisted equity investments as fair value through other comprehensive income.

#### 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, including:

- the identity and carrying amount of those assets, the use of which is restricted
- the nature of those restrictions.

##### Derecognition of financial assets

These requirements are addressed in the 'Financial Instruments' note and are not repeated here.

## 5.7 Acquisition and disposal of entities

### 5.7.1 Entity acquired [AASB 107.40]

On 2 August 20X1, 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) |           |
|---|---------------|-----------|
|   | 20X2          | 20X1      |
| <b>Consideration</b>                            |               |           |
| Cash and cash equivalents                       | 26 035        | ..        |
| Land and buildings                              | ..            | ..        |
| Ordinary shares                                 | ..            | ..        |
| Deferred purchase consideration                 | ..            | ..        |
| Other   | ..            | ..        |
| <b>Total consideration</b>                      | <b>26 035</b> | <b>..</b> |
| <b>Fair value of net assets acquired</b>        |               |           |
| <b>Assets</b>                                   |               |           |
| 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         | ..        |
| <b>Liabilities</b>                              |               |           |
| Payables  | (3 219)       | ..        |
| Provisions                                      | (1 246)       | ..        |
| Other liabilities                               | (87)          | ..        |
| <b>Net assets acquired</b>                      | <b>26 035</b> | <b>..</b> |
| <b>Net cash outflows on acquisition</b>         |               |           |
| Cash and cash equivalents consideration         | 26 035        | ..        |
| Less cash and cash equivalent balances acquired | (2 628)       | ..        |
| <b>Net cash outflows</b>                        | <b>23 407</b> | <b>..</b> |

## 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) |           |
|---|---------------|-----------|
|   | 20X2          | 20X1      |
| <b>Consideration</b>                            |               |           |
| Cash and cash equivalents                       | 17 795        | ..        |
| Land and buildings                              | ..            | ..        |
| Ordinary shares                                 | ..            | ..        |
| Deferred purchase consideration                 | ..            | ..        |
| Other   | ..            | ..        |
| <b>Total consideration</b>                      | <b>17 795</b> | <b>..</b> |
| <b>Book value of net assets disposed</b>        |               |           |
| <b>Assets</b>                                   |               |           |
| Cash and deposits                               | (348)         | ..        |
| Receivables                                     | 7 372         | ..        |
| Investments and other financial assets          | 4 065         | ..        |
| Inventories                                     | 2 555         | ..        |
| Property, plant and equipment                   | 14 227        | ..        |
| <b>Liabilities</b>                              |               |           |
| Payables  | (2 778)       | ..        |
| Borrowings                                      | (2 599)       | ..        |
| Provisions                                      | (4 678)       | ..        |
| Other liabilities                               | (20)          | ..        |
| <b>Net assets acquired</b>                      | <b>17 796</b> | <b>..</b> |
| <b>Net cash inflows on disposal</b>             |               |           |
| Cash and cash equivalents consideration         | 17 795        | ..        |
| Less cash and cash equivalent balances acquired | (348)         | ..        |
| <b>Net cash flows</b>                           | <b>17 447</b> | <b>..</b> |

### 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:

- 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
- 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
- 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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| 6.2 | Payables .....                  | 84 |
| 6.3 | Inventories.....                | 87 |
| 6.4 | Other non-financial assets..... | 88 |
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### Guidance – Other asset and liability disclosures [AASB 101.61]

An entity shall disclose the amount expected to be recovered or settled after more than 12 months for each asset and liability line item that combines amounts expected to be recovered or settled:

- no more than 12 months after the reporting period
- more than 12 months after the reporting period. [AASB 101.61]

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 [REVISED]

|                         |   | (\$ thousand) |               |
|-------------------------|---|---------------|---------------|
|                         |   | 20X2          | 20X1          |
| <i>Source reference</i> |   |               |               |
| AASB 101.78 (b)         | <b>Contractual</b>  |               |               |
|                         | Finance lease receivables   | 581           | 1 231         |
|                         | Sale of goods and services  | 1 374         | 965           |
|                         | Loans to third parties  | 544           | 485           |
|                         | Accrued investment income   | 1 864         | 1 058         |
|                         | Other receivables   | 334           | 438           |
| AASB 7.35H              | Allowance for impairment losses of contractual receivables  | (603)         | (327)         |
|                         | <b>Statutory</b>  |               |               |
|                         | Amount owing from Victorian Government  | 31 500        | 16 151        |
|                         | GST input tax credit recoverable  | 34            | 50            |
|                         | Fines and regulatory fees   | 383           | 415           |
|                         | Other receivables   | 34            | 59            |
| AASB 9 Aus2.1.1         | Allowance for impairment losses of statutory receivables  | ..            | ..            |
|                         | <b>Total receivables</b>  | <b>36 045</b> | <b>20 525</b> |
|                         | <i>Represented by</i>   |               |               |
| AASB 101.61             | Current receivables   | 28 590        | 18 076        |
| AASB 101.61             | Non-current receivables   | 7 380         | 2 399         |
| AASB 7.35L              | Contractual receivables outstanding written off during the reporting period and still subject to enforceable activity | 75            | 50            |

## 6. OTHER ASSETS AND LIABILITIES

**Contractual receivables** are classified as financial instruments and categorised as 'financial assets at amortised costs'. They are initially recognised at fair value plus any directly attributable transaction costs. The Department holds the contractual receivables with the objective to collect the contractual cash flows and therefore subsequently 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 but are not classified as financial instruments for disclosure purposes. The Department applies AASB 9 for initial measurement of the statutory receivables and, as a result, statutory receivables are initially recognised at fair value plus any directly attributable transaction cost. Amounts recognised from the Victorian Government represent funding for all commitments incurred and are drawn from the Consolidated Fund as the commitments fall due.

Details about the Department's impairment policies, the Department's exposure to credit risk and the calculation of the loss allowance are set out in Note 8.1.3.

### Finance lease receivables (Department as lessor) [AASB 16.67, 16.75]

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 16.92]. In relation to the leasing arrangements below, there are unguaranteed residual values of \$9 000 in 20X1-22 (\$24 000 in 20X0-X1) that were accrued for the benefit of the Department. [AASB 16.94]

The following table sets out the maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

|   | (\$ thousand) |              |
|---|---------------|--------------|
|   | 20X2          | 20X1         |
| <i>Source reference</i>                             |               |              |
| AASB 16.94  |               |              |
| Less than one year                                  | 270           | 300          |
| One to two years                                    | 76            | 195          |
| Two to three years                                  | 76            | 195          |
| Three to four years                                 | 76            | 195          |
| Four to five years                                  | 76            | 195          |
| Longer than five years                              | 116           | 345          |
| <b>Total undiscounted lease payments receivable</b> | <b>690</b>    | <b>1 425</b> |
| Unguaranteed residual amounts – undiscounted        | 9             | 24           |
| Less unearned finance income                        | (118)         | (218)        |
| <b>Net Investment in the lease</b>                  | <b>581</b>    | <b>1 231</b> |

During 20X1-22, the Department recognised finance income on the finance lease receivable of \$251 000. [AASB 16.90(a)(ii)]

### Leases as a Lessor

As a lessor, the Department classifies its leases as either operating or finance leases. [AASB 16.61]

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not. [AASB 16.62]

## Contract assets

|                  |   | (\$ thousand) |           |
|------------------|---|---------------|-----------|
| Source reference |   | 20X2          | 20X1      |
| AASB 15.116(a)   | Contract assets   |               |           |
|                  | Opening balance   | 20            | 100       |
|                  | Add: Additional costs incurred that are recoverable from the customer | 85            | ..        |
|                  | Less: Transfer to revenue recognition                                 | (85)          | (80)      |
| AASB 15.113(b)   | Less: Impairment allowance  | ..            | ..        |
|                  | <b>Total contract assets</b>  | <b>20</b>     | <b>20</b> |
|                  | <i>Represented by</i>   |               |           |
| AASB 15.116(a)   | Current contract assets   | 20            | 20        |
| AASB 15.116(a)   | Non-current contract assets   | ..            | ..        |

Contract assets relate to the Department's right to consideration in exchange for goods transferred to customers for works completed, but not yet billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional, at this time an invoice is issued. This usually occurs when the Department issues an invoice to the customer. The balance of the contract assets at 30 June 20X2 was impacted by timing of the works completed by contractors and is not billable at this stage. The works are expected to be completed and recovered early next year.

### Guidance – Receivables

**Finance Lease Receivable:** Where the department is a lessor with a finance lease, it is required to provide information that allows users of the financial statements to assess the effect that leases have on the lessor's financial position, financial performance and cash flows. A lessor should disclose:

- selling profit or loss
- finance income on the net investment in the lease
- income relating to variable lease payments not included in the measurement of the net investment in the lease [AASB 16.90(a)(i-iii)]
- qualitative and quantitative explanation of significant changes in the carrying amount of the net investment in the lease [AASB 16.93]
- maturity analysis of lease payments receivable for a minimum of each of the first five years plus a total amount for the remaining years
- reconciliation to the net investment in the lease. [AASB 16.94]

A lessor entity shall disclose additional qualitative and quantitative information about its leasing activities, including but not limited to:

- the nature of the lessor's leasing activities
- how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk [AASB 16.92(a) and (b)].

**Statutory receivables** [AASB 9.Aus2.1.1]: Assets that are not contractual (such as assets that arise as a result of statutory requirements), are not financial assets as defined in AASB 132 *Financial Instruments: Presentation*. However, the initial fair value measurement requirements of AASB 9 are the most appropriate for the types of receivables under consideration as the economic substance of contractual receivables and receivables arising from statutory requirements is similar at initial recognition and therefore AASB 9 should be applied for the initial measurement of such receivables. 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.

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.

## 6. OTHER ASSETS AND LIABILITIES

**Amounts owing from the 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.

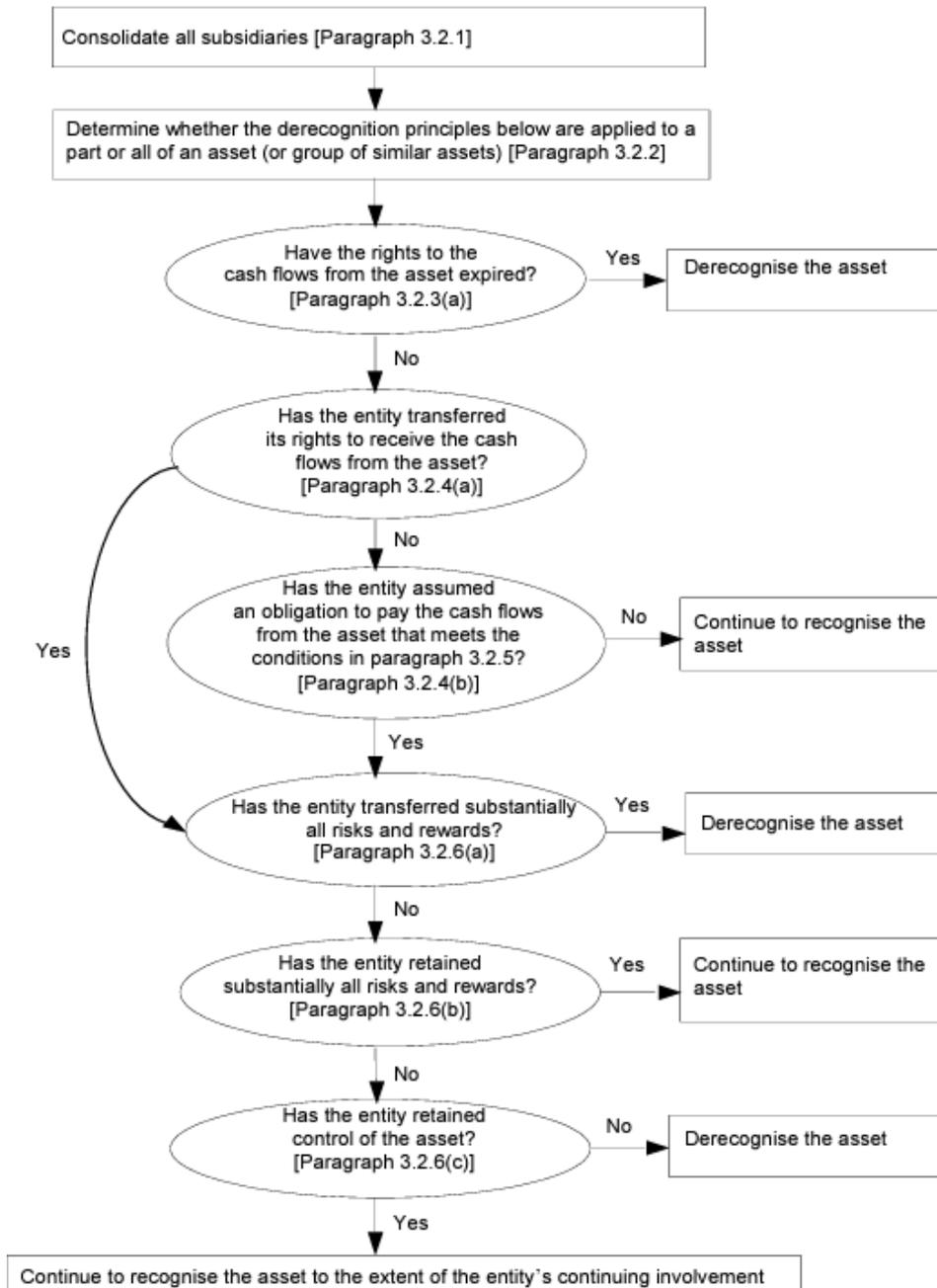
All other balances in the SAU are considered to be current, and so no measurement adjustment is required.

Receivables are subject to impairment loss assessment in accordance with AASB 9's expected credit loss model and the impairment loss allowance 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.

## Derecognition of financial assets

The following flowchart (extract of AASB 9) illustrates the evaluation of whether and to what extent a financial asset is derecognised. [Source: AASB 9.B3.2.1 Derecognition of financial assets (December 2021)]



## 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 at each reporting date for each class of transferred financial assets that are not derecognised in their entirety:

- the nature of the transferred assets
- the nature of the risks and rewards of ownership to which the entity is exposed
- 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
- when the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities)

## 6. OTHER ASSETS AND LIABILITIES

- when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities
- when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 3.2.6(c)(ii) and 3.2.16 of AASB 9), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.
- An entity shall disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets. [AASB 7.20A]

### Disclosure of Contract Balances

AASB 15 requires disclosure of the following in respect of revenue from contracts with customers:

- contract balances
- information on how it satisfies its performance obligations
- significant payment terms
- the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e. if the entity is acting as an agent)
- obligations for returns, refunds and other similar obligations
- the types of warranties and related obligations.

### Transaction price allocated to the remaining performance obligations

- Aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period, and an explanation of when the entity expects to recognise the unsatisfied portion as revenue.
  - This should not include those where original contract term is one year or less; or the entity is using the practical expedient in AASB 15.B16, where the right to consideration responds directly to the performance completed to date
  - This is not required for all reporting periods presented before the date of initial application.
- Whether applying the practical expedient in AASB 15.121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with AASB 15.120.

### Significant judgements

- Judgements, and changes in judgements, in applying AASB 15 that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular the timing of satisfaction of performance obligations and the transaction price and the amounts allocated to performance obligations.
- Methods used to recognise revenue from performance obligations satisfied over time, and an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.
- Significant judgements made in evaluating when a customer obtains control of promised goods or services for performance obligations satisfied at a point in time.
- Information about the methods, inputs and assumptions used for determining the transaction price, assessing whether an estimate of variable consideration is constrained, allocating the transaction price, measuring obligations for returns, refunds and other similar obligations.
- Judgements in determining the amount of the costs incurred to obtain or fulfil a contract with a customer, and the method it uses to determine the amortisation.
- Closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer, by main categories of assets, and the amount of amortisation and any impairment losses recognised in the reporting period.
- The fact the entity elected to use the following practical expedients: existence of a significant financing component for contracts of one year or less (AASB 15.63); and/or directly expensing incremental costs of obtaining a contract.

**Contract assets and contract liabilities**

A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. The contract asset excludes receivables from contracts with customers. [AASB 15.105]

An entity shall assess a contract asset for impairment in accordance with AASB 9. [AASB 15.107]

A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer. [AASB 15.105]

The following must be disclosed separately:

- receivables
- contract assets
- contract liabilities. [AASB 15.105]

Note that if trade receivables include receivables from contracts with customers and other receivables, these should be separately disclosed.

(Please refer to contract assets and contract liabilities notes that are disclosed separately in the asset and liabilities notes)

**Disclosure**

- The opening and closing balances of:
  - receivables
  - contract assets
  - contract liabilities
- Revenue recognised that was included in the contract liability balance at the beginning of the year
- Revenue recognised from performance obligations satisfied in previous periods [AASB 15.116]
- Explain how the timing of satisfaction of performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances. May use qualitative information. [AASB 15.117]

Explain significant changes in contract assets and liabilities. Reasons for the change may include:

- business combinations
- cumulative catch ups, such as those arising from a change in the measure of progress, a change in an estimate of the transaction price or a contract modification
- impairment of contract assets
- change in timeframe – of contract assets becoming a receivable
- change in timeframe – for performance obligation to be satisfied. [AASB 15.118]
- Disclose the following information about remaining performance obligations:
  - the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period
  - an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a). The disclosure can be either on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or by using qualitative information. [AASB 15.120].

## 6. OTHER ASSETS AND LIABILITIES

### 6.2 Payables [REVISED]

|  | (\$ thousand) |               |
|--|---------------|---------------|
| Source reference                           | 20X2          | 20X1          |
| <b>Contractual</b>                         |               |               |
| Supplies and services                      | 4 508         | 3 387         |
| Amounts payable to government and agencies | 10 891        | 1 796         |
| Unearned income                            | 1 145         | 1 990         |
| Deferred capital grant income              | 26            | 13            |
| Other payables                             | 817           | 8 925         |
| <b>Statutory</b>                           |               |               |
| FBT payable                                | 82            | 169           |
| GST payable                                | 108           | 225           |
| Other taxes payable                        | 82            | 169           |
| <b>Total payables</b>                      | <b>17 659</b> | <b>16 674</b> |
| <i>Represented by:</i>                     |               |               |
| AASB 101.61 Current payables               | 17 659        | 16 674        |
| AASB 101.61 Non-current payables           | ..            | ..            |

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
- **Statutory payables:** Recognised and measured similarly to contractual payables, but 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 9.5.1.1 and AASB 9.5.3.1]

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.

#### Deferred capital grant income

Grant consideration was received from the Commonwealth Government to support the construction of the data storage centre at Wantirna South and the development and construction of the web infrastructure framework in the Department. Grant income is recognised progressively as the asset is constructed, since this is the time when the Department satisfies its obligations under the transfer by controlling the asset as and when it is constructed. The progressive percentage costs incurred is used to recognise income because this most closely reflects the progress to completion as costs are incurred as the works are done. (see note 2.1) As a result, the Department has deferred recognition of a portion of the grant consideration received as a liability for the outstanding obligations.

|                  | (\$ thousand)  |      |      |
|------------------|--|------|------|
| Source reference | 20X2   | 20X1 |      |
| AASB 1058.31     | Grant consideration for capital works recognised that was included in the deferred grant liability balance (adjusted for AASB 1058) at the beginning of the year | 13   | ..   |
| AASB 1058.31     | Grant consideration for capital works received during the year   | 53   | 53   |
| AASB 1058.31     | Grant income for capital works recognised consistent with the capital works undertaken during the year   | (40) | (40) |
| AASB 1058.31     | Closing balance of deferred grant consideration received for capital works   | 26   | 13   |

There was a slight delay on completion of the construction work and the Department is expected to recognise all of the remaining grant income for capital works the following year. This is because the Commonwealth Government only provides grant funding progressively based on the estimated costs expected to be incurred each year.

## Contract liabilities

|                         |  | (\$ thousand) |           |
|-------------------------|--|---------------|-----------|
| <i>Source reference</i> |  | 20X2          | 20X1      |
| AASB 15.116 (a)         | Contract liabilities   |               |           |
| AASB 15.116 (b)         | Opening balance  | 85            | 55        |
|                         | Add: Payments received for performance obligations yet to be completed during the period   | 80            | 110       |
|                         | Add: Grant consideration for sufficiently specific performance obligations received during the year  | 50            | 50        |
|                         | Less: Revenue recognised in the reporting period for the completion of a performance obligation  | (85)          | (85)      |
|                         | Less: Grant revenue for sufficiently specific performance obligations works recognised consistent with the performance obligations met during the year | (45)          | (45)      |
|                         | <b>Total contract liabilities</b>  | <b>85</b>     | <b>85</b> |
|                         | <i>Represented by</i>  |               |           |
| AASB 15.116 (a)         | Current contract liabilities   | 85            | 85        |
| AASB 15.116 (a)         | Non-current contract liabilities   | ..            | ..        |

Contract liabilities include consideration received in advance from customers in respect of IT infrastructure connectivity services. Invoices are raised once the goods and services are delivered provided to them. The balance of contract liabilities was significantly higher at 30 June 20X2 as there was higher demand for remote access. A large number of advances were received for significant upgrades to infrastructure frameworks yet to be provided.

In addition, grant consideration was also received from the State Government in support of technology services provided to health agencies to support facilitation of certain out-patient services to the pensioners. Grant income is recognised when the relevant services are provided to the health agencies each quarter to administer their services to pensioners and reported to the Commonwealth Government. Differences in the number of services provided are adjusted in the funding provided annually. The remaining grant revenue is recognised when the services are rendered in the following year.

|                         |  | (\$ thousand) |      |
|-------------------------|--|---------------|------|
| <i>Source reference</i> |  | 20X2          | 20X1 |
| AASB 15.116 (c)         | Revenue recognised from performance obligations satisfied in previous periods                      | 55            | 75   |
| AASB 15.120 (b)         | Transaction price allocated to the remaining performance obligations from contracts with customers | 80            | 85   |

The transaction price allocated to the remaining performance obligations relates to the completion of the IT infrastructure connectivity works to be completed. 100 per cent is expected to be recognised as revenue in the 20X1-22 financial year.

**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 the expected credit loss model under AASB 9 *Financial Instruments* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with AASB 15. [AASB 9.4.2.1(c)]

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.

## 6. OTHER ASSETS AND LIABILITIES

### Maturity analysis of contractual payables <sup>(a)</sup> [AASB 7.39(a)]

(\$ thousand)

| 20X2                                       | Carrying amount | Nominal amount | Maturity dates    |              |                  |              |           |
|--|-----------------|----------------|-------------------|--------------|------------------|--------------|-----------|
|  |                 |                | Less than 1 month | 1-3 months   | 3 months– 1 year | 1-5 years    | 5+ years  |
| Supplies and services                      | 4 508           | 4 508          | 1 828             | 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           | ..        |
| <b>Total</b>                               | <b>16 216</b>   | <b>16 216</b>  | <b>8 015</b>      | <b>4 448</b> | <b>884</b>       | <b>2 869</b> | <b>..</b> |

| 20X1                                       | Carrying amount | Nominal amount | Less than 1 month | 1-3 months   | 3 months– 1 year | 1-5 years    | 5+ years   |
|--|-----------------|----------------|-------------------|--------------|------------------|--------------|------------|
| Supplies and services                      | 3 387           | 3 387          | 987               | 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        |
| <b>Total</b>                               | <b>14 108</b>   | <b>14 108</b>  | <b>8 183</b>      | <b>2 855</b> | <b>728</b>       | <b>1 544</b> | <b>798</b> |

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:** 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. [AASB 9.Appendix A]

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 of the loss allowance determined in accordance with AASB 9 Section 5.5 and the amount initially recognised less cumulative amortisation, where appropriate. [AASB 9.4.2.1(c)]

Alternatively, the entity can designate the financial guarantee contract at fair value through net result in case of an accounting mismatch or if it is part of a portfolio that is managed and its performance evaluated on a fair value basis. [AASB 9.4.2.2] 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 9.4.2.1(c) and AASB 137.45]

**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]

**Grant of right to operate liability:** This liability is recognised applying 'grant of right to the operator model' under AASB 1059 where there is no contractual obligation to pay cash or another financial asset for the construction, development, acquisition, or upgrade of a service concession asset. Instead, an operator has been given the right to earn revenue from users of the asset or has been given the right to access another asset that generates revenue. It is the unearned portion of the revenue from exchange of assets and is progressively reduced over the term of the arrangement according to the economic substance of the arrangement. [AASB 1059.21-23]

## 6.3 Inventories

|                         |   | (\$ thousand) |               |
|-------------------------|---|---------------|---------------|
| <i>Source reference</i> |   | 20X2          | 20X1          |
|                         | <b>Current inventories</b>                |               |               |
|                         | <b>Supplies and consumables:</b>          |               |               |
| AASB 102.36 (b)         | At cost                                   | 7 299         | 9 404         |
|                         | <b>Work in progress:</b>                  |               |               |
| AASB 102.36 (b)         | At cost                                   | 1 931         | 1 515         |
|                         | <b>Inventories held for sale:</b>         |               |               |
|                         | At cost                                   | 2 523         | 8 594         |
|                         | At net realisable value                   | 91            | 99            |
|                         | <b>Total current inventories</b>          | <b>11 844</b> | <b>19 612</b> |
|                         | <b>Inventories held for distribution:</b> |               |               |
| AASB 102.Aus 36.1 (b)   | At cost                                   | 308           | 144           |
|                         | Loss of service potential                 | (97)          | (24)          |
| AASB 101.61             | <b>Total inventories</b>                  | <b>12 055</b> | <b>19 732</b> |

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]

### Guidance – Inventories [AASB 102.36]

The financial statements shall disclose:

- the accounting policies adopted in measuring inventories, including the cost formula used
- the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity
- the carrying amount of inventories carried at fair value less costs to sell
- the amount of inventories recognised as an expense during the period
- the amount of any write down of inventories recognised as an expense in the period
- 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
- the circumstances or events that led to the reversal of a write down of inventories
- the carrying amount of inventories pledged as security for liabilities.

## 6. OTHER ASSETS AND LIABILITIES

Not-for-profit entities shall disclose:

- the accounting policies adopted in measuring inventories held for distribution, including the cost formula used
- the total carrying amount of inventories held for distribution and the carrying amount in classifications appropriate to the entity
- the amount of inventories held for distribution recognised as an expense during the period
- the amount of any write down of inventories held for distribution recognised as an expense during the period
- 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
- the circumstances or event that led to the reversal of a write down of inventories held for distribution
- the carrying amount of inventories held for distribution pledged as security for liabilities
- 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)                         |                  |
|------------------|---------------------------------------|------------------|
| Source reference | 20X2                                  | 20X1             |
|                  | <b>Current other assets</b>           |                  |
|                  | Prepayments                           | 1 483 380        |
| AASB 101.61      | <b>Total current other assets</b>     | <b>1 483 380</b> |
|                  | Non-current other assets              |                  |
| AASB 101.61      | Other                                 | .. ..            |
|                  | <b>Total non-current other assets</b> | <b>.. ..</b>     |
|                  | <b>Total other assets</b>             | <b>1 483 380</b> |

Other non-financial assets include pre-payments, 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) |              |
|------------------|-------------------------------------|---------------|--------------|
| Source reference |                                     | 20X2          | 20X1         |
|                  | <b>Current provisions</b>           |               |              |
|                  | Onerous contracts                   | 993           | 2 290        |
| AASB 101.61      | <b>Total current provisions</b>     | <b>993</b>    | <b>2 290</b> |
|                  | <b>Non-current provisions</b>       |               |              |
| AASB 101.61      | Onerous contracts                   | 709           | 1 273        |
|                  | Make-good provision                 | 450           | 375          |
|                  | <b>Total non-current provisions</b> | <b>1 159</b>  | <b>1 648</b> |
|                  | <b>Total other provisions</b>       | <b>2 152</b>  | <b>3 938</b> |

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)

| Source reference    |   | Onerous contracts | Make-good  | Total 20X2   |
|---------------------|---|-------------------|------------|--------------|
| AASB 137.84 (a)     | <b>Opening balance</b>  | <b>3 563</b>      | <b>375</b> | <b>3 938</b> |
| AASB 137.84 (b)     | Additional provisions recognised  | 426               | 50         | 476          |
| AASB 137.84 (b)     | Additions due to transfer in  | ..                | ..         | ..           |
| AASB 137.84 (b)     | Additions due to acquisitions   | ..                | ..         | ..           |
| AASB 137.84 (c)     | Reductions arising from payments/other sacrifices of future economic benefits | (105)             | ..         | (105)        |
| AASB 137.84 (d)     | Reductions resulting from remeasurement or settlement without cost            | ..                | ..         | ..           |
| AASB 137.60, 84 (e) | Unwind of discount and effect of changes in the discount rate                 | ..                | 25         | 25           |
| AASB 137.84 (c)     | Reduction due to held for sale  | (1 042)           | ..         | (1 042)      |
| AASB 137.84 (c)     | Reduction due to transfer out   | (1 139)           | ..         | (1 139)      |
| AASB 137.84 (a)     | <b>Closing balance</b>  | <b>1 703</b>      | <b>450</b> | <b>2 153</b> |

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. The provision has been measured based on the unavoidable costs of meeting the contractual obligations. The unavoidable costs are the lower of the costs of fulfilling the contract and any compensation or penalties from the failure to fulfill the contract.

### Guidance – Provisions

#### Recognition of provisions

A provision shall be recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- 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, 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:

- the carrying amount at the beginning and end of the period
- additional provisions made in the period, including increases to existing provisions
- amounts used (that is, incurred and charged against the provision) during the period
- unused amounts reversed during the period
- 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 brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits
- 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)  |                |
|---|----------------|----------------|
|   | 20X2           | 20X1           |
| <i>Source reference</i>   |                |                |
| AASB 101.61   |                |                |
| <b>Current borrowings</b>   |                |                |
| Bank overdrafts   | ..             | 5 437          |
| Lease liabilities <sup>(a)</sup>                                    |                |                |
| Public private partnership (PPP) related lease liabilities          | 2 643          | 6 670          |
| Non-PPP related lease liabilities                                   | 2 603          | 3 576          |
| Service concession financial liability                              | 1 000          | 1 000          |
| Advances from government <sup>(b)</sup>                             | 5 118          | 10 287         |
| <b>Total current borrowings</b>                                     | <b>11 364</b>  | <b>26 970</b>  |
| <b>Non-current borrowings</b>                                       |                |                |
| Lease liabilities   |                |                |
| Public private partnership (PPP) related lease liabilities          | 2 551          | 6 391          |
| Non-PPP related lease liabilities                                   | 5 209          | 3 425          |
| Service concession financial liability <sup>(c)</sup>               | 57 500         | 58 500         |
| Advances from government  | 195            | 2 057          |
| Loans from TCV <sup>(d)(e)</sup>                                    | 48 696         | 27 705         |
| Financial liability designated at fair value through profit or loss | 150            | 200            |
| <b>Total non-current borrowings</b>                                 | <b>114 301</b> | <b>98 278</b>  |
| <b>Total borrowings</b>   | <b>125 665</b> | <b>125 248</b> |

#### Notes:

(a) Secured by the assets leased. Lease liabilities 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) This relates to the Construction of data centre to store medical records arrangement recognised applying AASB 1059. Interest is charged on the liability and recognised in the Interest expense section below. The liability is reduced over the term of the arrangement through quarterly cash payments to the operator. Further information is included in 7.5.3 Service Concession Arrangements: Grantors.

(d) These are unsecured loans with a weighted average interest rate of 3.55 per cent (20X1: 5 per cent).

(e) 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, lease liabilities, service concession arrangement liabilities and other interest-bearing arrangements.

Borrowings are classified as financial instruments. Interest bearing liabilities are classified at amortised cost unless the Department elects to irrevocably designate them at fair value through profit or loss at initial recognition. The election depends on the nature and purpose of the interest-bearing liabilities. [AASB 7.21, 9.4.2.1; FRD 114]

## 7. HOW WE FINANCED OUR OPERATIONS

The Department has designated certain financial liabilities at fair value through net result to eliminate or significantly reduce the accounting mismatch that would otherwise arise. All other interest-bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. For financial liabilities designated at fair value through net result, all transaction costs are expensed as incurred. And they are subsequently measured at fair value with changes in fair value relating to the Department's own credit risk recognised in other comprehensive income and the remaining amount of changes in fair value recognised in net result. Amounts in other comprehensive income related to credit risk are not subject to recycling in profit loss but are transferred to retained earnings when realised. [AASB 7.21, FRD 114, AASB 9.4.2.1(a), 4.2.2]

**Defaults and breaches:** During the current and prior year, there were no defaults and breaches of any of the loans. [AASB 7.18]

### Maturity analysis of borrowings [AASB 7.39(a)]

(\$ thousand)

| 20X2  | Carrying amount | Nominal amount | Maturity dates    |              |                   |               |               |
|---|-----------------|----------------|-------------------|--------------|-------------------|---------------|---------------|
|   |                 |                | Less than 1 month | 1-3 months   | 3 months – 1 year | 1–5 years     | 5+ years      |
| Bank overdrafts   | ..              | ..             | ..                | ..           | ..                | ..            | ..            |
| Lease liabilities   | 13 006          | 14 995         | 504               | 1 511        | 4 536             | 6 313         | 2 131         |
| Service concession financial liability                              | 58 500          | 60 255         | 93                | 285          | 734               | 5 267         | 53 876        |
| Advances from government  | 5 313           | 5 630          | 512               | 768          | 4 350             | ..            | ..            |
| Loans from TCV  | 48 696          | 68 696         | ..                | ..           | ..                | 29 478        | 39 218        |
| Financial liability designated at fair value through profit or loss | 150             | 200            | ..                | ..           | ..                | 200           | ..            |
| <b>Total</b>  | <b>125 665</b>  | <b>129 776</b> | <b>1 109</b>      | <b>2 564</b> | <b>9 620</b>      | <b>41 258</b> | <b>95 225</b> |
| <b>20X1</b>   |                 |                |                   |              |                   |               |               |
| Bank overdrafts   | 5 437           | 5 437          | 5 437             | ..           | ..                | ..            | ..            |
| Lease liabilities   | 20 062          | 24 074         | 8 195             | 3 074        | 1 025             | 5 890         | 5 890         |
| Service concession financial liability                              | 59 500          | 61 285         | 97                | 398          | 668               | 4 952         | 55 170        |
| Advances from government  | 12 344          | 13 315         | 1 029             | 1 543        | 10 743            | ..            | ..            |
| Loans from TCV  | 27 705          | 37 655         | ..                | ..           | ..                | 21 032        | 16 623        |
| Financial liability designated at fair value through profit or loss | 200             | 300            | ..                | ..           | ..                | 300           | ..            |
| <b>Total</b>  | <b>125 248</b>  | <b>130 116</b> | <b>14 758</b>     | <b>5 015</b> | <b>12 436</b>     | <b>32 174</b> | <b>77 683</b> |

## 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
- 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]

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). [AASB 7.19]

**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) |              |
|---|---------------|--------------|
| <i>Source reference</i>                       | 20X2          | 20X1         |
| Interest on government loans                  | 172           | 390          |
| Interest on leases liabilities <sup>(a)</sup> | 1 321         | 1 195        |
| Interest on service concession arrangements   | 4 000         | 2 000        |
| Other interest expense                        | 1 055         | 750          |
| AASB 7.20 (b) <b>Total interest expense</b>   | <b>6 548</b>  | <b>4 335</b> |

Note:

(a) Of the balance in 'interest on finance leases', \$XXX [\$xxx in 20X1] 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 lease repayments, service concession financial liabilities 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 105]

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 105]

## Guidance – Borrowing costs

Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds and may include:

- interest expense calculated using the effective interest method as described in AASB 9 *Financial Instruments*
- finance charges in respect of leases liabilities recognised in accordance with AASB 16 and finance charges in respect of finance leases recognised in accordance with AASB 117 *Leases* before the initial application of AASB 16
- finance charges in respect of service concession financial liabilities recognised applying the financial liability model in AASB 1059
- 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

Information about leases for which the Department is a lessee is presented below.

### The Departments leasing activities

The Department leases various properties, IT equipment and motor vehicles. The lease contracts are typically made for fixed periods of 1-10 years with an option to renew the lease after that date. Lease payments for properties are renegotiated every five years to reflect market rentals. [AASB 16.51 – 59]

Leases of IT equipment with contract terms of 1-3 years are either short-term and or/leases of low-value items. The Department has elected not to recognise right-of-use assets and lease liabilities for these leases. [AASB 16.60]

At 30 June 20X2, the Department was committed to short term leases and the total commitment at that date was \$3 500. [AASB 16.55]

### Leases at significantly below-market terms and conditions

The Department entered into a 30-year lease for the use of a facility to provide community services. The lease contract specifies lease payments of \$100 per annum. The leased premises must be used by the Department to provide teaching of IT classes to the community. This building accounts for a small portion of similar assets used by the Department is using for the purpose of providing services to the community and therefore it does not have a significant impact on the Department's operations. [AASB 16. Aus59.1 and 16.Aus59.2]

### 7.2.1 Right-of-use Assets

Right-of-use assets are presented in note 5.1.1.

## 7. HOW WE FINANCED OUR OPERATIONS

### 7.2.2 Amounts recognised in the Comprehensive Operating Statement

The following amounts are recognised in the Comprehensive Operating Statement relating to leases:

|   | (\$ thousand) |              |
|---|---------------|--------------|
| Source reference  | 20X2          | 20X1         |
| AASB 16.53 (b)  | 1 321         | 1 195        |
| AASB 16.53 (c)  | 2 036         | 1 000        |
| AASB 16.53 (d)  | 1 681         | 98           |
| AASB 16.53 (e)  | ..            | ..           |
| AASB 16.53 (f)  | ..            | ..           |
| AASB 16.53 (i)  | ..            | ..           |
| <b>Total amount recognised in the comprehensive operating statement</b> | <b>5 038</b>  | <b>2 293</b> |

### 7.2.3 Amounts recognised in the Statement of Cashflows

The following amounts are recognised in the Statement of Cashflows for the year ending 30 June 20X2 relating to leases.

|   | (\$ thousand) |              |
|---|---------------|--------------|
| Source reference  | 20X2          | 20X1         |
| AASB 16.53 (b)  | 1 321         | 1 195        |
| AASB 16.53 (c)  | 2 036         | 1 000        |
| AASB 16.53 (d)  | 1 681         | 98           |
| AASB 16.53 (e)  | ..            | ..           |
| AASB 16.53 (f)  | ..            | ..           |
| AASB 16.53 (i)  | ..            | ..           |
| <b>Total amount recognised in the comprehensive operating statement</b> | <b>5 038</b>  | <b>2 293</b> |

For any new contracts entered into, the Department considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Department assesses whether the contract meets three key evaluations, including:

- whether the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Department and for which the supplier does not have substantive substitution rights
- whether the department has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract and the department has the right to direct the use of the identified asset throughout the period of use
- whether the Department has the right to take decisions in respect of 'how and for what purpose' the asset is used throughout the period of use.

This policy is applied to contracts entered into, or changed, on or after 1 July 2019.

[AASB 16.9, AASB 16.B9-B31, FRD 104]

#### Separation of lease and non-lease components

At inception or on reassessment of a contract that contains a lease component, the lessee is required to separate out and account separately for non-lease components within a lease contract and exclude these amounts when determining the lease liability and right-of-use asset amount. [AASB 16.12, FRD 104]

## Recognition and measurement of leases as a lessee

### *Lease Liability – initial measurement*

The lease liability is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily determinable or the Department's incremental borrowing rate. [AASB 16.26]

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments (including in-substance fixed payments) less any lease incentive receivable
- Variable payments based on an index or rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable under a residual value guarantee
- Payments arising from purchase and termination options reasonably certain to be exercised.

[AASB 16.27]

### *Lease Liability – subsequent measurement*

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments.

[AASB 16.36]

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. [AASB 16.39]

### *Short-term leases and leases of low-value assets*

The Department has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. [AASB 16.60, FRD104]

### *Below market/Peppercorn lease*

Right-of-use assets under leases at significantly below-market terms and conditions that are entered into principally to enable the Department to further its objectives, are initially and subsequently measured at cost. [AASB 16.Aus25.1, AASB 16.Aus35.1, FRD104]

These right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

### *Presentation of right-of-use assets and lease liabilities*

The Department presents right-of-use assets as 'property plant equipment' unless they meet the definition of investment property, in which case they are disclosed as 'investment property' in the balance sheet. Lease liabilities are presented as 'borrowings' in the balance sheet. [AASB 16.47 and AASB 16.48]

**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 lease liability, as disclosed in the table below. In addition, until the end of this PPP arrangement, the Department pays Project Co Pty Ltd for ongoing operation and maintenance of the system

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 the Department's right to use the assets are accounted for as 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

(\$ thousand)

|   | Minimum future lease payments <sup>(a)</sup> |               | Present value of minimum future lease payments |               |
|---|--|---------------|--|---------------|
|   | 20X2   | 20X1          | 20X2   | 20X1          |
| <b>Commissioned PPP related finance lease liabilities payable</b> |  |               |  |               |
| 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         |
| <b>Other 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           |
| <b>Minimum future lease payments</b>                              | <b>9 677</b>                                 | <b>24 074</b> | <b>8 064</b>                                   | <b>20 062</b> |
| Less future finance charges                                       | (1 613)                                      | (4 012)       | ..   | ..            |
| <b>Present value of minimum lease payments</b>                    | <b>8 064</b>                                 | <b>20 062</b> | <b>8 064</b>                                   | <b>20 062</b> |
| 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         |
| <b>Total</b>  | <b>..</b>                                    | <b>..</b>     | <b>8 064</b>                                   | <b>20 062</b> |

Note:

(a) Minimum future lease payments include the aggregate of all base payments and any guaranteed residual.

### Guidance – Leases

The objective of this guidance is to ensure departments provide relevant information in a manner that faithfully represent transactions related to all leases, and the respective right-of-use assets. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Refer to checklist 'Identification of a lease' located on DTF website to assist with determining whether particular transactions are caught within the scope of AASB 16.

The right-of-use assets will be subsequently measured at fair value in line with all other property, plant and equipment in accordance with FRD 103. There will be instances where the right-of-use assets will require revaluations.

Departments are required to assess at the end of each reporting date whether there are any indicators of impairment of right-of-use assets in accordance with AASB 136 as well as any general indicators the assets 'carrying amount' differs from the fair value.

### Presentation and disclosure requirements under AASB 16

Right-of-use assets must be presented separately from other assets and are to be included within the same class of property, plant and equipment as the corresponding underlying assets would be presented if owned. Therefore, this note contains tables for right-of-use assets, where the Department is the lessee. [AASB 16.47(a)(i)(ii)]

Lease liabilities must be presented separately from other liabilities and is included within 'Borrowings' – refer to Note 7.1 that contains the lease liability balances. [AASB 16.47(b)]

The following information is required to be disclosed about an entity's leases as a lessee:

- Depreciation charge for right-of-use assets, split by class of underlying asset
- Interest expense on lease liabilities
- Short-term lease expense for such leases with lease term greater than one month
- Low-value asset lease expense (except for portions related to short-term leases)
- Variable lease expense (i.e. for variable lease payments not included in the lease liability)
- Income from sub-leasing right-of-use assets
- Total cash outflow for leases
- Additions to right-of-use assets
- Gains and losses arising from sale and leaseback transactions
- Carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

[AASB 16.53]

All of the above disclosures are required to be presented in a tabular format, unless another format is more appropriate. The amounts to be disclosed must include costs that the lessee has included in the carrying amount of another asset during the reporting period. [AASB 16.54]

The standard requires disclosure of the amount of lease commitments for short-term leases that are recognised as expenses on a straight-line or other systematic basis, if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expenses are disclosed in the financial statements. [AASB 16.55]

Where the right-of-use assets meet the definition investment property in AASB 140, the disclosures in AASB 140 must be applied and the disclosures in AASB 16.53 for depreciation, subleasing income and right-of-use asset additions do not apply to these assets. [AASB 16.56]

A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of AASB 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities. [AASB 16.57]

Additional qualitative and quantitative information about a lessee's leasing activities is necessary to meet the disclosure objective of the standard. This additional information may include, but is not limited to, information that helps users of the financial statements to assess:

- the nature of the lessee's leasing activities
- future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities, arising from:
  - variable lease payments
  - extension options and termination options
  - residual value guarantees
  - leases not yet commenced to which the lessee is committed
  - restrictions or covenants imposed by leases
  - sale and leaseback transactions.

[AASB 16.59]

Disclosures of additional information relating to leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives or peppercorn leases include:

- the entity's dependence on leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives
- the nature and terms of the leases, including:
  - the lease payments
  - the lease term
  - a description of the underlying assets
  - restrictions on the use of the underlying assets specific to the entity.

[AASB 16.Aus59.1]

The disclosures above should be provided individually for each material lease or in aggregate for leases involving right-of-use assets of a similar nature. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insufficient detail or the aggregation of items that have substantially different characteristics. [AASB 16.Aus59.2]

Disclosures of additional information relating to variable lease payments can include:

- the lessee's reasons for using variable lease payments and the prevalence of those payments
- the relative magnitude of variable lease payments to fixed payments
- key variables upon which variable lease payments depend on how payments are expected to vary in response to changes in those key variables
- other operational and financial effects of variable lease payments.

Disclosure of additional information relating to extension and termination options can include:

- the lessee's reasons for using extension options or termination options and the prevalence of those options
- the relative magnitude of optional lease payments to lease payments
- the prevalence of the exercise of options that were not included in the measurement of lease liabilities
- other operational and financial effects of those options.

## 7. HOW WE FINANCED OUR OPERATIONS

Extension and termination options are included in a number of property and equipment leases. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the entity and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Potential future cash outflows of \$xx have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of \$xx.

### 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 that are held for the purpose of meeting short-term cash commitments rather than for investment purposes, and 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                                       | 20X2          | 20X1          |
| AASB 107.45  |               |               |
| Total cash and deposits disclosed in the balance sheet | 71 083        | 65 723        |
| Bank overdraft   | ..            | (5 437)       |
| Discontinued operations                                | 4 906         | 1 283         |
| AASB 107.45  |               |               |
| <b>Balance as per cash flow statement</b>              | <b>76 709</b> | <b>62 289</b> |

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 20X2, cash at bank included the amount of a notional shortfall for the payment of unrepresented cheques of \$10 000 (20X1: \$6 000).

**7.3.1 Reconciliation of net result for the period to cash flow from operating activities****[AASB 1054.16]**

(\$ thousand)

|  | 20X2          | 20X1          |
|--|---------------|---------------|
| <b>Net result for the period</b>                                       | <b>7 490</b>  | <b>7 624</b>  |
| <b>Non-cash movements</b>  |               |               |
| (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                    | 18 718        | 13 358        |
| 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                               | 7 121         | 3 971         |
| Other non-cash movements   | 356           | (444)         |
| <b>Movements included in investing and financing activities</b>        |               |               |
| (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)         |
| <b>Movements in assets and liabilities</b>                             |               |               |
| Decrease/(Increase) in receivables                                     | (22 799)      | (3 610)       |
| Decrease/(Increase) in contract assets                                 | (20)          | ..            |
| Decrease/(Increase) in inventories                                     | 6 941         | 15            |
| Decrease/(Increase) in other non-financial assets                      | (1 094)       | (285)         |
| Increase/(Decrease) in payables  | (372)         | 18 972        |
| Decrease/(Increase) in contract liabilities                            | (85)          | ..            |
| Increase/(Decrease) in provisions                                      | (4 673)       | 2 695         |
| Increase/(Decrease) in other liabilities                               | (58)          | 169           |
| <b>Net cash flows from/(used in) operating activities</b>              | <b>11 834</b> | <b>36 748</b> |

**Assumption of liabilities:** During the reporting period the Department assumed the liabilities of Westlake Centre for Vaccine Research amounting to \$825 000 (20X1: \$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.

**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)

|   | 20X2          | 20X1          |
|---|---------------|---------------|
| <b>Unsecured bank overdraft facility, reviewed annually and payable at call</b>   |               |               |
| Amount used   | ..            | 5 437         |
| Amount unused   | 10 000        | 4 563         |
| <b>Total</b>  | <b>10 000</b> | <b>10 000</b> |
| <b>Unsecured loan facilities with various maturity dates through to 20X1-20 and which may be extended by mutual agreement</b> |               |               |
| Amount used   | 53 814        | 39 724        |
| Amount unused   | ..            | ..            |
| <b>Total</b>  | <b>53 814</b> | <b>39 724</b> |

## 7. HOW WE FINANCED OUR OPERATIONS

### 7.4 Trust account balances

Trust account balances relating to trust accounts controlled and/or administered by the Department <sup>(a)</sup>

(\$ thousand)

| Cash and cash equivalents and investments   | 20X2                              |                |                |                                    | 20X1                              |                |                |                                    |
|---|-----------------------------------|----------------|----------------|------------------------------------|-----------------------------------|----------------|----------------|------------------------------------|
|   | Opening balance as at 1 July 20X1 | Total receipts | Total payments | Closing balance as at 30 June 20X2 | Opening balance as at 1 July 20X0 | Total receipts | Total payments | Closing balance as at 30 June 20X1 |
| <b>Controlled trusts</b>  |                                   |                |                |                                    |                                   |                |                |                                    |
| [Title of Trust 1]<br>[include legislative reference and nature and purpose for which Trust 1 was created.] | ..                                | ..             | ..             | ..                                 | ..                                | ..             | ..             | ..                                 |
| [Title of Trust 2]<br>[include legislative reference and nature and purpose for which Trust 2 was created.] | ..                                | ..             | ..             | ..                                 | ..                                | ..             | ..             | ..                                 |
| <b>Total controlled trusts</b>  | ..                                | ..             | ..             | ..                                 | ..                                | ..             | ..             | ..                                 |
| <b>Administered trusts</b>  |                                   |                |                |                                    |                                   |                |                |                                    |
| [Title of Trust 3]<br>[include legislative reference and nature and purpose for which Trust 3 was created.] | ..                                | ..             | ..             | ..                                 | ..                                | ..             | ..             | ..                                 |
| [Title of Trust 4]<br>[include legislative reference and nature and purpose for which Trust 4 was created.] | ..                                | ..             | ..             | ..                                 | ..                                | ..             | ..             | ..                                 |
| <b>Total administered trusts</b>  | ..                                | ..             | ..             | ..                                 | ..                                | ..             | ..             | ..                                 |

Note:

(a) This table is based on the Auditor General's recommendation in report Portfolio Departments and Associated Entities: Results of the 2011–2012 Audits.

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] 2018.

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 [year] 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 [date]. In [date], 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.

| <b>Biological Disaster Fund</b>   |  | <b>(\$ thousand)</b> |             |
|---|--|----------------------|-------------|
| <i>Source reference</i>   |  | <b>20X2</b>          | <b>20X1</b> |
| Based on recommendation 6 in PAEC Report on the 2011 - 12 Budget Estimates – Part one | Cash at bank                                     | 113                  | 249         |
|   | Less amounts pending payments                    | (2)                  | (10)        |
|   | <b>Total funds under management</b>              | <b>111</b>           | <b>239</b>  |
|   | Donations and other contributions <sup>(a)</sup> | 142                  | 500         |
|   | Interest earned <sup>(b)</sup>                   | 4                    | 11          |
|   | <b>Total receipts</b>                            | <b>146</b>           | <b>511</b>  |
|   | Payments to businesses                           | 7                    | 23          |
|   | Payments to community groups                     | 5                    | 35          |
|   | Payments to individuals                          | 11                   | 86          |
|   | Payments on state-owned assets                   | 12                   | 128         |
|   | <b>Total payments</b>                            | <b>35</b>            | <b>272</b>  |
|   | <b>Balance carried forward <sup>(c)</sup></b>    | <b>111</b>           | <b>239</b>  |

## 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.]

| <b>Other third-party funds under management</b>       | <b>(\$ million)</b> |             |
|---|---------------------|-------------|
|   | <b>20X2</b>         | <b>20X1</b> |
| eTechnology Fund <sup>(a)</sup>                       | 21                  | 46          |
| International Network Association Fund <sup>(b)</sup> | 2                   | 2           |
| <b>Total funds under management</b>                   | <b>23</b>           | <b>48</b>   |

## 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 15.B35]

An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.

#### Agent [AASB 15.B36]

An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity’s fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

## 7. HOW WE FINANCED OUR OPERATIONS

Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal include, but are not limited to, when:

- the entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (e.g. primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf
- the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (e.g. if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer
- the entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

It should be noted that the indicators listed above may be more or less relevant to the assessment of control, depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

### **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.

### **Natural disasters [PAEC Report on the 2011-12 Budget Estimates - 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]

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## 7.5 Commitments for expenditure

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are recorded 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 16.55), AASB16.58, AASB 138.122(e), AASB 12.23(a)]

### 7.5.1 Total commitments payable

(\$ thousand)

| Source reference           | Nominal amounts<br>20X2                      | Less than<br>1 year | 1–5<br>years | 5+<br>years   | Total         |
|----------------------------|--|---------------------|--------------|---------------|---------------|
|                            | SCA 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         |
| 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           |
|                            | <b>Total commitments (inclusive of GST)</b>  | <b>10 461</b>       | <b>5 384</b> | <b>18 069</b> | <b>33 914</b> |
|                            | Less GST recoverable                         |                     |              |               | (2 586)       |
|                            | <b>Total commitments (exclusive of GST)</b>  |                     |              |               | <b>31 328</b> |

| Source reference           | 20X1  |               |               |               |               |
|----------------------------|---|---------------|---------------|---------------|---------------|
|                            | SCA 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         |
| 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                           | ..            | ..            | ..            | ..            |
|                            | <b>Total commitments (inclusive of GST)</b>         | <b>23 057</b> | <b>14 651</b> | <b>11 175</b> | <b>48 883</b> |
|                            | Less GST recoverable from the Australian Tax Office |               |               |               | (3 284)       |
|                            | <b>Total commitments (exclusive of GST)</b>         |               |               |               | <b>45 599</b> |

### 7.5.2 Service concession arrangements (SCA) commitments

The SCA commitments table below comprises of the following:

- **Commissioned SCAs:** Only the operating and maintenance commitments of the SCA for the remaining term of the SCA are included in the commitments amounts, as the capital component (i.e. the construction of the underlying asset) is recorded as a liability on the Department's balance sheet.
- **Uncommissioned SCAs:** The commitments include the capital component not yet recognised on the balance sheet (i.e. the amount relating to the asset which hasn't been constructed as yet), the Department's future capital contributions as well as the operating and maintenance commitments for the SCA contract.

Further information around the Department's SCAs can be found in Note 7.5.3.

## 7. HOW WE FINANCED OUR OPERATIONS

### SCA Commitments

(\$ thousand)

|  | 20X2             |                                     |                   |               | 20X1             |                                     |                   |                |
|--|------------------|-------------------------------------|-------------------|---------------|------------------|-------------------------------------|-------------------|----------------|
|  | Liability        | Capital Contribution <sup>(a)</sup> | Other commitments | Commitments   | Liability        | Capital Contribution <sup>(a)</sup> | Other commitments | Commitments    |
|  | Discounted value |                                     | Present value     | Nominal value | Discounted value |                                     | Present value     | Nominal value  |
| <b>Financial liability model – Commissioned SCAs</b> <sup>(b)(c)(d)(e)</sup> |                  |                                     |                   |               |                  |                                     |                   |                |
| IT&T system development <sup>(f)</sup>                                       | ..               | ..                                  | 4 605             | 5 334         | ..               | ..                                  | 11 449            | 13 737         |
| Biotech Research Centre <sup>(f)</sup>                                       | ..               | ..                                  | 3 069             | 3 556         | ..               | ..                                  | 7 632             | 9 159          |
| Construction of data centre to store medical records                         | ..               | ..                                  | ..                | 60 255        | ..               | ..                                  | ..                | 61 285         |
| <b>Subtotal</b>  | ..               | ..                                  | <b>7 674</b>      | <b>69 145</b> | ..               | ..                                  | <b>19 081</b>     | <b>84 181</b>  |
| <b>Financial liability model – Uncommissioned SCAs</b> <sup>(g)</sup>        |                  |                                     |                   |               |                  |                                     |                   |                |
| IT training schools  | 3 329            | 200                                 | 1 569             | 11 901        | 3 329            | 200                                 | 1 458             | 11 901         |
| Climate Change Research Centre <sup>(h)</sup>                                | 1 685            | ..                                  | 579               | 8 035         | 1 685            | ..                                  | 534               | 8 035          |
| <b>Subtotal</b>  | <b>5 014</b>     | <b>200</b>                          | <b>2 148</b>      | <b>19 936</b> | <b>5 014</b>     | <b>200</b>                          | <b>1 992</b>      | <b>19 936</b>  |
| <b>Total commitments for SCAs</b>  | <b>5 014</b>     | <b>200</b>                          | <b>9 822</b>      | <b>89 081</b> | <b>5 014</b>     | <b>200</b>                          | <b>21 073</b>     | <b>104 117</b> |

#### Notes:

- (a) Capital contribution is measured at nominal value.
- (b) The year-on-year reduction in the nominal amounts of the other commitments reflects the payments made.
- (c) 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.
- (d) The table discloses only other operating and maintenance commitments for the IT system project and the Biotech Research Centre project.
- (e) 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.
- (f) On 16 September 20X1, the Department entered into a contract with IT Solutions Ltd to construct and maintain new IT training schools. The contract term is 30 years.
- (g) For uncommissioned SCAs relating to service concessions, the asset and liability are recognised progressively during the construction term and therefore not recognised in the table above.
- (h) On 1 March 20X1, 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.

## Guidance – Commitments for expenditure

### Specific guidance for SCAs

**Commissioned and uncommissioned SCAs:** Commissioned SCAs are construction projects that are completed as per government requirements and are ready for operation, which generally occurs from commercial acceptance.

Uncommissioned SCAs are construction projects that are yet to commence or are still in progress. Arrangements that are accounted for under AASB 1059 are recognised progressively on the balance sheet, provided the grantor has control over the service concession asset during the construction period and therefore should not be included as uncommissioned projects.

Commissioned and uncommissioned SCAs need to be disclosed separately. For commissioned SCAs, the expenditure component relating to capital/finance is a service concession arrangement 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 SCAs, both the 'capital finance component' and the 'other commitments' component are disclosed in the commitments note.

**Outstanding SCA contractual payments:** The purpose of the commitment note is to provide users with discounted or present value information about outstanding SCA contractual payments for individual projects 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 operating and maintenance contracts, asset upgrades and contingent rentals.

Where a contract and QSPs may relate to several like assets such as the upgrade and maintenance of several schools, disclosure would not be expected at the individual school level. Confirmation of individual SCA 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).

**Discount dates:** In calculating the discounted value of the 'capital finance component' of commitments for uncommissioned (still under construction) SCAs, 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 SCAs, the payments shall be discounted to the 30 June of the reporting period and the comparative period respectively.

**Government capital contributions:** Government capital contributions relate to committed amounts to be paid by the State in a SCA. 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 SCA other commitments:** For both commissioned and uncommissioned service concession arrangements, the present value of the other commitments shall be disclosed. If required, DTF can provide further guidance on the appropriate discount rate to be used based on the specifics of the arrangement.

**GST for SCAs:** Where there is evidence of invoices for the QSPs that separately identify the financing components, GST is not required to be added in respect to 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.

### 7.5.3 Service concession arrangements (SCA)

AASB 1059 applies to arrangements where an operator provides public services, using a service concession asset, on behalf of the Department and, importantly, the operator manages at least some of the public service at its own discretion. The Department must also control the asset for AASB 1059 to apply. This means that certain Public Private Partnership (PPP) arrangements are not within the scope of AASB 1059 and are accounted for as either a lease (refer to Note 7.2) or assets being constructed by the Department (refer to Note 5.1). In addition, certain arrangements that are not PPPs (such as certain external service arrangements) could be captured within the scope of AASB 1059.

For arrangements within the scope of AASB 1059, at initial recognition a public sector grantor records the asset(s) used in the service concession arrangement at current replacement cost with a related liability, which could be a financial liability, an accrued revenue liability (referred to as the 'Grant Of A Right To The Operator' or GORTO liability) or a combination of both.

The nature of the liability and subsequent accounting depends on the consideration exchanged in the arrangement between the Department and the operator.

The Department initially recognised the liability at the same amount as the service concession asset, adjusted by the amount of any consideration from the Department to the operator, or from the operator to the Department.

Exception to this occurs when the Department reclassifies an existing asset as a service concession asset. When this occurs, no liability is recognised unless additional consideration is provided to the operator. Instead, the Department recognises a service concession asset and a corresponding liability for the amounts spent on the upgrade/expansion work.

A **financial liability** is recognised where the Department has a contractual obligation to pay the operator for providing the service concession asset. It is measured in accordance with AASB 9 *Financial Instruments* and is recognised as a borrowing (Note 7.1). The liability is increased by interest charges (Note 7.1), based on the interest rate implicit in the arrangement. Where the interest rate is not specified in the arrangement, the prevailing market rate of interest for a similar instrument with similar credit ratings is used. The liability is reduced by any payments made by the Department to the operator as required by the contract.

A **grant of right to the operator (GORTO) liability** is recognised where the Department does not have a contractual obligation to pay cash or another financial asset but grants the right to the operator to earn revenue from the public use of the asset (Note 6.2). This type of arrangement is commonly referred to as an economic service concession arrangement. It represents unearned revenue and is progressively reduced over the period of the arrangement in accordance with its substance (Note 2.4.5).

After initial recognition, service concession assets are subsequently measured applying the revaluation model (refer to Note 5.1 *Total Property, Plant and Equipment* and Note 5.4 *Intangible Assets*).

The Department has the following service concession arrangements:

#### Intellectual property and registry functions commercialisation – GORTO model

In [date], the State of Victoria granted a concession to operate the intellectual property and registry functions of the Department for \$20 million. [AASB 1059.28(a)]

Victorian Intellectual Property Registry Services (VIPRS) are responsible for part of the Department's intellectual property and registry functions for a 20-year term, after which the functions will be returned to the Department. [AASB 1059.28(a),(c)(i)(iii)]

VIPRS has access to the State's intellectual property registry data, operating manual and software. A condition of the arrangement is that data will be kept secure. [AASB 1059.28(a),(c)(vi)].

## 7. HOW WE FINANCED OUR OPERATIONS

The assets that form part of this arrangement have been assessed as providing a public service. The VIPRS also manage some of the delivery of the public service at its own discretion. The services that VIPRS manage include processing property register data searches, registrations of intellectual property, inquiries and modifications to the intellectual property register. The VIPRS have continued to deliver these services to the public in a smooth manner, ensuring service delivery requirements are maintained. VIPRS must meet key performance indicators throughout the term of the agreement which will be reviewed on a quarterly basis. Where the Department is satisfied with the performance of VIPRS, there is an option for the arrangement to be extended for a further five-year term. Where there is unsatisfactory performance, the agreement allows VIPRS the opportunity to rectify its operations however if this is not the case the Department may terminate. [AASB 1059.28(b),(c)(iv)]

The State will retain full control over prices for intellectual property services throughout the 20-year term, and price increases will be capped at CPI for non-statutory services. The Registrar of Intellectual Property will remain under the Department's control, retaining an oversight role over VIPRS. [AASB 1059.28(a)]

VIPRS will receive payments from the State on an executory basis. This is based on the total intellectual property registrations that occur for services rendered. The service payments are recognised in the purchase of services line of Note 3.3 *Other operating expenses* [1059.28(b)]

For the \$20 million received upfront [date] from VIPRS, the Department has recognised a grant of right to operate liability (Note 6.2). Since initial recognition, revenue (refer to Note 2.4.5) has been recognised on a straight-line basis which is representative of the economic substance of this arrangement and the liability reduced simultaneously. This will continue over the remaining 20-year term.

The database has been recognised as an intangible asset (Note 5.4) at \$2 million, based on the current replacement cost of the asset. It has an indefinite useful life and is not depreciated. [1059.28(c)(ii), AASB 1059.B39(a)]

### **Construction of data centre to store medical records – Financial liability model**

The XYZ Consortium was contracted to construct a data centre that stores and maintains the medical records of the Victorian public. [AASB 1059.28(a)]

Construction of the data centre began in [date] and commercial acceptance was achieved in [date]. The fair value of the asset at this time was \$60 million. It is recognised as a service concession asset within the building category in Note 5.1 and the financial liability recognised in Note 7.1. [AASB 1059.28(a)(c)(ii)]

The consortium will operate and maintain the data centre for a term of 25 years. The data centre will return to the Department at this time, with a remaining useful life of five years. The service concession asset will be depreciated over the term of the arrangement (refer to Note 5.1.1). An interest expense on the financial liability is recognised each year (refer to Note 7.1). [AASB 1059.28(a)(c)(ii)]

Over the 25-year term, the Department will provide the consortium with access to its medical record software. The consortium will be responsible for ensuring data security is maintained to industry standards, medical record software is kept up-to-date and operational, and the records can be accessed and updated as needed by medical professionals. The functions for which the consortium is responsible are deemed to be public services and then it manages these functions under its own discretion. [AASB 1059.28(a)]

The consortium is subject to key performance indicators over the term of the agreement. Where there is unsatisfactory performance, the agreement gives the consortium the ability to rectify its performance. However, if this is not satisfactory the Department can adjust the quarterly payments made to the consortium. Where performance is not rectified, the Department can terminate the agreement and appoint another suitable body to take over the operation and management of the hospital. [AASB 1059.28(b)(c)(iv)]

If the Department is satisfied with the consortium's performance, the agreement includes an optional five-year extension term. Negotiations to extend can begin two years prior to agreement end date. [AASB 1059.28(c)(iv)]

## Guidance – Service Concession Arrangements: Grantors

### AASB 1059 Presentation and Disclosure requirements – paragraphs 28 and 29

The financial statements should include sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of assets, liabilities, revenue and cash flows arising from service concession arrangements. To achieve this, entities shall consider disclosing qualitative and quantitative information about its service concession arrangements, including the following:

- a description of the arrangement
- significant terms of the arrangements that may affect the amount, timing and uncertainty of future cash flows (e.g. the period of the arrangement, re-pricing dates and the basis upon which repricing or renegotiation is determined)
- the nature and extent (e.g. quantity, time period, or amount, as appropriate) of:
  - rights to receive specified services from the operator
  - the carrying amount of service concession assets as at the end of the reporting period, including separate disclosure for existing assets of the grantor reclassified as service concession assets during the reporting period
  - rights to receive specified assets at the end of the arrangement
  - renewal and termination options
  - other rights and obligations (e.g. major overhaul of service concession assets)
  - obligations to provide the operator with access to service concession assets or other revenue-generating assets.
- changes in arrangements occurring during the reporting period.

Disclosures should be included individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature, in addition to disclosures required by AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*, where required. Service concession assets of a similar nature may form a subset of a class of assets disclosed in accordance with AASB 116 or AASB 138 or may be included in more than one class of assets disclosed in accordance with AASB 116 or AASB 138. For example, for the purposes of AASB 116, a toll bridge may be included in the same class as other bridges and may also be included in aggregate with service concession assets reported as toll roads.

The disclosures required to meet the objective of AASB 1059's disclosure requirements will depend on the facts and circumstances of individual arrangements. Determining the extent of disclosures required is a matter of judgement and a public sector entity should engage with audit early to ensure disclosures are appropriate.

**Note:** The disclosures do not address AASB 1059.28(c)(ii) or (d) as they are not relevant to the scenario. If relevant to a specific public sector entity, information relating to these should be included.

#### 7.5.4 Commitments other than SCAs

|   | (\$ thousand)                        |                                      |
|---|--------------------------------------|--------------------------------------|
|   | 20X2                                 | 20X1                                 |
|   | <i>Nominal value<br/>(incl. GST)</i> | <i>Nominal value<br/>(incl. GST)</i> |
| 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                                   |
| Other commitments: Outsourcing  | 168                                  | ..                                   |
| <b>Total commitments other than SCAs</b>                                    | <b>5 088</b>                         | <b>6 051</b>                         |

### 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
- 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
- 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
- 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 7.5.4, commitments relating to 'intangible assets' and 'the Department's share of joint ventures' capital expenditure are immaterial in the Annual Financial Report and are therefore aggregated into 'total other commitments payable'. If these groups are also immaterial for departments, then they could be aggregated into 'total other commitments payable' and deleted from the table format shown above.

## 7.6 Assets pledged as security

The Department has secured the leased assets against selected 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:

- The carrying amount of inventories pledged as security for liabilities [AASB 102.36(h)]
- 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)]
- The carrying amount of the property, plant and equipment pledged and the related existence and amounts of restrictions on title [AASB 116.74(a)]
- The existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal [AASB 140.75(g)]
- 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

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### 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 assets

#### Financial assets at amortised cost

Financial assets are measured at amortised costs if both of the following criteria are met and the assets are not designated as fair value through net result:

- The assets are held by the Department to collect the contractual cash flows
- The assets' contractual terms give rise to cash flows that are solely payments of principal and interests.

These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment.

The Department recognises the following assets in this category:

- Cash and deposits
- Receivables (excluding statutory receivables)
- Term deposits
- Certain debt securities

#### Financial assets at fair value through other comprehensive income

Debt investments are measured at fair value through other comprehensive income if both of the following criteria are met and the assets are not designated as fair value through net result:

- The assets are held by the Department to achieve its objective both by collecting the contractual cash flows and by selling the financial assets
- The assets' contractual terms give rise to cash flows that are solely payments of principal and interests.

Equity investments are measured at fair value through other comprehensive income if the assets are not held for trading and the Department has irrevocably elected at initial recognition to recognise in this category.

These assets are initially recognised at fair value with subsequent change in fair value in other comprehensive income.

Upon disposal of these debt instruments, any related balance in the fair value reserve is reclassified to profit or loss. However, upon disposal of these equity instruments, any related balance in fair value reserve is reclassified to retained earnings.

The Department recognises certain unlisted equity instruments within this category.

### **Financial assets at fair value through net result**

Equity instruments that are held for trading as well as derivative instruments are classified as fair value through net result. Other financial assets are required to be measured at fair value through net result unless they are measured at amortised cost or fair value through other comprehensive income as explained above.

However, as an exception to those rules above, the Department may, at initial recognition, irrevocably designate financial assets as measured at fair value through net result if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Department recognises listed equity securities as mandatorily measured at fair value through net result and designated all of its managed investment schemes as well as certain five-year government bonds as fair value through net result.

### **Categories of financial liabilities**

**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 net result 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, unless the changes in fair value relate to changes in the Department's own credit risk. In this case, the portion of the change attributable to changes in the Department's own credit risk is recognised in other comprehensive income with no subsequent recycling to net result when the financial liability is derecognised. The Department recognises some debt securities that are held for trading in this category and designated certain debt securities as fair value through net result 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)
- Borrowings (including 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.

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

**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
- 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
- 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
  - 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.

**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.

**Reclassification of financial instruments:** Subsequent to initial recognition reclassification of financial liabilities is not permitted. Financial assets are required to be reclassified between fair value through net result, fair value through other comprehensive income and amortised cost when and only when the Department's business model for managing its financial assets has changed such that its previous model would no longer apply.

However, the Department is generally unable to change its business model because it is determined by the Performance Management Framework (PMF) and all Victorian government departments are required to apply the PMF under the Standing Directions 2018 under the FMA.

If under rare circumstances an asset is reclassified, the reclassification is applied prospectively from the reclassification date and previously recognised gains, losses or interest should not be restated. If the asset is reclassified to fair value, the fair value should be determined at the reclassification date and any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in net result.

### Guidance – Financial instruments [AASB 7.7]

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:

- an estimate of its financial effect
- an indication of the uncertainties relating to the amount or timing of any outflow
- 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 9.Aus2.1.1]**

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 for disclosure purposes. Therefore, these financial assets or financial liabilities are not in 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
- all appropriated funding.

**Reclassification of financial assets [AASB 7.12B-D]**

If, as a result of a change in its business model for managing financial assets where an entity reclassifies a financial asset in accordance with paragraph 4.4.1 of AASB 9, it shall disclose:

- the date of reclassification
- a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements
- the amount reclassified into and out of each category.

For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified out of the fair value through net result category so that they are measured at amortised cost or fair value through other comprehensive income in accordance with paragraph 4.4.1 of AASB 9:

- the effective interest rate determined on the date of reclassification
- the interest revenue recognised.

If, since its last annual reporting date, an entity has reclassified financial assets out of the fair value through other comprehensive income category so that they are measured at amortised cost or out of the fair value through net result category so that they are measured at amortised cost or fair value through other comprehensive income it shall disclose:

- the fair value of the financial assets at the end of the reporting period
- the fair value gain or loss that would have been recognised in net result or other comprehensive income during the reporting period if the financial assets had not been reclassified.

**Master netting or similar arrangements [AASB 132.42-50 and AASB 7.13A-F]**

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.

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

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> |
|---|--|---|--|--|-------------------|
| <b>30 June 20X2 <sup>(a)</sup></b>          |  |   |  |  |                   |
| <b>Financial assets</b>                     |  |   |  |  |                   |
| 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]           |
| <b>Financial liabilities</b>                |  |   |  |  |                   |
| 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.

## 8.1.1 Financial instruments: Categorisation [AASB 7.8]

(\$ thousand)

| 20X2   | Cash and deposits | Financial assets / liabilities designated at fair value through profit/loss (FVTPL) | Financial assets / liabilities mandatorily measured at fair value through profit/loss (FVTPL) | Financial assets measured at fair value through other comprehensive income (FVOCI) | Financial assets at amortised cost (AC) | Financial liabilities at amortised cost (AC) | Total          |
|--|-------------------|---|---|--|---|--|----------------|
| <b>Contractual financial assets</b>  |                   |   |   |  |   |  |                |
| Cash and deposits  | 71 803            | ..  | ..  | ..   | ..                                      | ..   | 71 803         |
| <b>Receivables <sup>(a)</sup></b>  |                   |   |   |  |   |  | ..             |
| Finance lease receivables  | ..                | ..  | ..  | ..   | ..                                      | ..   | ..             |
| Sale of goods and services   | ..                | ..  | ..  | ..   | 1 374                                   | ..   | 1 374          |
| Loans to third parties   | ..                | ..  | ..  | ..   | 544                                     | ..   | 544            |
| Accrued investment income  | ..                | ..  | ..  | ..   | 1 864                                   | ..   | 1 864          |
| Other receivables  | ..                | ..  | ..  | ..   | 334                                     | ..   | 334            |
| <b>Investments and other contractual financial assets</b>                            |                   |   |   |  |   |  | ..             |
| Equities – listed securities   | ..                | ..  | 1 614   | ..   | ..                                      | ..   | 1 614          |
| Equities – unlisted securities   | ..                | ..  | ..  | 322  | ..                                      | ..   | 322            |
| Managed investment schemes   | ..                | 229   | ..  | ..   | ..                                      | ..   | 229            |
| Term deposits  | ..                | ..  | ..  | ..   | 2 890                                   | ..   | 2 890          |
| Debt securities  | ..                | 3 823   | ..  | ..   | 5 198                                   | ..   | 9 021          |
| <b>Total contractual financial assets</b>  | <b>71 803</b>     | <b>4 052</b>  | <b>1 614</b>  | <b>322</b>   | <b>12 204</b>                           | <b>..</b>                                    | <b>89 995</b>  |
| <b>Contractual financial liabilities</b>   |                   |   |   |  |   |  |                |
| <b>Payables <sup>(a)</sup></b>   |                   |   |   |  |   |  |                |
| Supplies and services  | ..                | ..  | ..  | ..   | ..                                      | 4 508  | 4 508          |
| Amounts payable to government and agencies   | ..                | ..  | ..  | ..   | ..                                      | 10 891                                       | 10 891         |
| Other payables   | ..                | ..  | ..  | ..   | ..                                      | 817  | 817            |
| <b>Borrowings</b>  |                   |   |   |  |   |  | ..             |
| Bank overdrafts  | ..                | ..  | ..  | ..   | ..                                      | ..   | ..             |
| Lease liabilities  | ..                | ..  | ..  | ..   | ..                                      | 8 064  | 8 064          |
| Service concession financial liability   | ..                | ..  | ..  | ..   | ..                                      | 58 500                                       | 58 500         |
| Advances from government   | ..                | ..  | ..  | ..   | ..                                      | 5 313  | 5 313          |
| Loans from TCV   | ..                | ..  | ..  | ..   | ..                                      | 48 696                                       | 48 696         |
| Financial liabilities designated at fair value through profit or loss <sup>(a)</sup> | ..                | ..  | 150   | ..   | ..                                      | ..   | 150            |
| <b>Total contractual financial liabilities</b>                                       | <b>..</b>         | <b>..</b>   | <b>150</b>  | <b>..</b>  | <b>..</b>                               | <b>136 789</b>                               | <b>136 939</b> |

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]

## 8.1.1 Financial instruments: Categorisation (continued) [AASB 7.8]

(\$ thousand)

| 20X1  | Cash and deposits | Contractual financial assets / liabilities designated at fair value through profit/loss | Contractual financial assets / liabilities mandatorily measured at fair value through profit/loss | Contractual financial assets – available-for-sale | Contractual financial assets – loans and receivables / held to maturity | Contractual financial liabilities at amortised cost | Total          |
|---|-------------------|---|---|---|---|---|----------------|
| <b>Contractual financial assets</b>                                   |                   |   |   |   |   |   |                |
| Cash and deposits   | 66 443            | ..  | ..  | ..  | ..  | ..  | 66 443         |
| <b>Receivables <sup>(a)</sup></b>                                     |                   |   |   |   |   |   |                |
| Finance lease receivables   | ..                | ..  | ..  | ..  | 1 231   | ..  | 1 231          |
| Sale of goods and services  | ..                | ..  | ..  | ..  | 965   | ..  | 965            |
| Loans to third parties  | ..                | ..  | ..  | ..  | 485   | ..  | 485            |
| Accrued investment income   | ..                | ..  | ..  | ..  | 1 058   | ..  | 1 058          |
| Other receivables   | ..                | ..  | ..  | ..  | 438   | ..  | 438            |
| <b>Investments and other contractual financial assets</b>             |                   |   |   |   |   |   |                |
| Equities – listed securities  | ..                | ..  | ..  | 1 492   | ..  | ..  | 1 492          |
| Equities – unlisted securities  | ..                | ..  | ..  | 538   | ..  | ..  | 538            |
| Managed investment schemes  | ..                | ..  | ..  | 2 149   | ..  | ..  | 2 149          |
| Term deposits   | ..                | ..  | ..  | ..  | 5 130   | ..  | 5 130          |
| Debt securities   | ..                | 2 409   | ..  | ..  | 5 013   | ..  | 7 422          |
| <b>Total contractual financial assets</b>                             | <b>66 443</b>     | <b>2 409</b>  | <b>..</b>   | <b>4 179</b>                                      | <b>14 320</b>   | <b>..</b>   | <b>87 351</b>  |
| <b>Contractual financial liabilities</b>                              |                   |   |   |   |   |   |                |
| <b>Payables <sup>(a)</sup></b>  |                   |   |   |   |   |   |                |
| Supplies and services   | ..                | ..  | ..  | ..  | ..  | 3 387   | 3 387          |
| Amounts payable to government and agencies                            | ..                | ..  | ..  | ..  | ..  | 1 796   | 1 796          |
| Other payables  | ..                | ..  | ..  | ..  | ..  | 8 925   | 8 925          |
| <b>Borrowings</b>   |                   |   |   |   |   |   |                |
| Bank overdrafts   | ..                | ..  | ..  | ..  | ..  | 5 437   | 5 437          |
| Lease liabilities   | ..                | ..  | ..  | ..  | ..  | 20 062  | 20 062         |
| Service concession financial liability                                | ..                | ..  | ..  | ..  | ..  | 59 500  | 59 500         |
| Advances from government  | ..                | ..  | ..  | ..  | ..  | 12 344  | 12 344         |
| Loans from TCV  | ..                | ..  | ..  | ..  | ..  | 27 705  | 27 705         |
| Financial liabilities designated at fair value through profit or loss | ..                | ..  | 200   | ..  | ..  | ..  | 200            |
| <b>Total contractual financial liabilities</b>                        | <b>..</b>         | <b>..</b>   | <b>200</b>  | <b>..</b>   | <b>..</b>   | <b>139 156</b>                                      | <b>139 356</b> |

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]

### 8.1.2 Financial instruments – Net holding gain/(loss) on financial instruments by category [AASB 7.20]

(\$ thousand)

| Source reference            | 20X2  | Net holding gain/(loss) | Total interest income/(expense) | Fee income/(expense) | Impairment loss | Total          |
|-----------------------------|---|-------------------------|---------------------------------|----------------------|-----------------|----------------|
|                             | <b>Contractual financial assets</b>   |                         |                                 |                      |                 |                |
| AASB 7.20 (a)(i)            | Debt investments mandatorily measured at fair value through profit/loss   | 65                      | 1 689                           | ..                   | ..              | 1 754          |
| AASB 7.20(a)(i), (b)        | Equity investments designated at fair value through profit/loss   | (2 105)                 | ..                              | ..                   | ..              | (2 105)        |
| AASB 7.20(a)(vii)           | Equity investments designated at fair value through other comprehensive income – recognised in other comprehensive income | (173)                   | ..                              | ..                   | ..              | (173)          |
| AASB 7.20 (a)(vi)           | Financial assets at amortised cost – other than on derecognition  | (471)                   | 2 175                           | ..                   | (455)           | 1 249          |
|                             | <b>Total contractual financial assets</b>   | <b>(2 684)</b>          | <b>3 864</b>                    | <b>..</b>            | <b>(455)</b>    | <b>725</b>     |
|                             | <b>Contractual financial liabilities</b>  |                         |                                 |                      |                 |                |
| AASB 7.20(a)(v),(b), (c)(i) | Financial liabilities at amortised cost   | 1 830                   | (10 566)                        | 307                  | ..              | (8 429)        |
| AASB 7.20(a)(i),(b), (c)(i) | Financial liabilities designated at fair value through profit/loss  | 20                      | ..                              | ..                   | ..              | 20             |
|                             | <b>Total contractual financial liabilities</b>  | <b>1 850</b>            | <b>(10 566)</b>                 | <b>307</b>           | <b>..</b>       | <b>(8 409)</b> |
|                             | <b>20X1</b>   |                         |                                 |                      |                 |                |
|                             | <b>Contractual financial assets</b>   |                         |                                 |                      |                 |                |
| AASB 7.20 (a)(i)            | Debt investments mandatorily measured at fair value through profit/loss   | 400                     | 1 262                           | ..                   | ..              | 1 662          |
| AASB 7.20(a)(i), (b)        | Equity investments designated at fair value through profit/loss   | 210                     | 1 635                           | ..                   | (276)           | 1 569          |
| AASB 7.20(a)(vii)           | Equity investments designated at fair value through other comprehensive income – recognised in other comprehensive income | ..                      | ..                              | ..                   | ..              | ..             |
| AASB 7.20 (a)(vi)           | Financial assets at amortised cost  | ..                      | ..                              | ..                   | ..              | ..             |
|                             | <b>Total contractual financial assets</b>   | <b>610</b>              | <b>2 897</b>                    | <b>..</b>            | <b>(276)</b>    | <b>3 231</b>   |
|                             | <b>Contractual financial liabilities</b>  |                         |                                 |                      |                 |                |
| AASB 7.20(a)(v),(b), (c)(i) | Financial liabilities at amortised cost   | 1 420                   | (8 575)                         | 144                  | ..              | (7 011)        |
| AASB 7.20(a)(i),(b), (c)(i) | Financial liabilities designated at fair value through profit/loss  | ..                      | ..                              | ..                   | ..              | ..             |
|                             | <b>Total contractual financial liabilities</b>  | <b>1 420</b>            | <b>(8 575)</b>                  | <b>144</b>           | <b>..</b>       | <b>(7 011)</b> |

[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, financial assets at amortised cost and debt instruments that are classified as financial assets at fair value through other comprehensive income, 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
- For financial asset and liabilities that are mandatorily measured at or designated at fair value through net result, the net gain or loss is calculated by taking the movement in the fair value of the financial asset or liability.

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Financial liabilities designated at fair value through net result changes in fair value relating to the Department's own credit risk recognised through other comprehensive income

| Source reference |   | 20X2 | 20X1 |
|------------------|---|------|------|
| AASB 7.10 (a)    | Cumulative impact of changes in credit risk | 30   | ..   |
|                  | Carrying amount                             | 150  | 200  |
|                  | Contractual amount to be paid               | 200  | 200  |
| AASB 7.10 (b)    | Difference                                  | (50) | ..   |

### Guidance – Categorisation of financial instruments [AASB 7.8]

#### Categories of financial instruments [AASB 7.7]

An entity shall disclose the carrying amounts of the following categories either in the balance sheet or in the notes:

- financial instruments (contractual financial assets or financial liabilities) at fair value through profit or loss, showing separately:
  - those designated as such upon initial recognition
  - those mandatorily measured as fair value through net result (e.g. those are held for trading).
- financial assets at amortised cost
- financial instruments at fair value through comprehensive income
- financial liabilities measured at amortised cost.

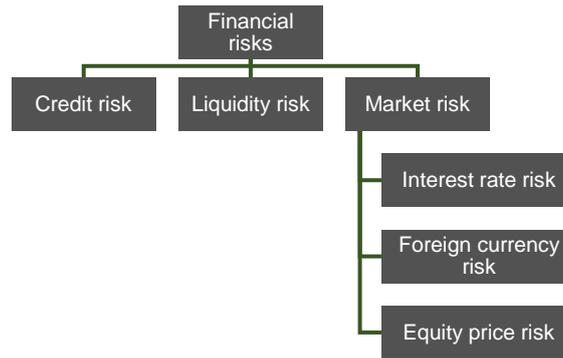
Entities in the general government sector and public non-financial corporations sector can refer to FRD 114 *Financial Instruments* for further guidance on the categorisation of financial instruments (for entities in the public financial corporations sector).

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

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]

#### 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:

- The measurement basis (bases) and the criteria used to determine classification for different types of financial instruments
- The movements in fair value for financial instruments classified as fair value through profit or loss
- An entity's objectives, policies and processes for managing capital
- 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:

- the exposures to risk and how they arise
- its objectives, policies and processes for managing the risk and the methods used to measure the risk
- any changes in (a) or (b) from the previous reporting period.

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Quantitative disclosure [AASB 7.34-35]

For each type of risk arising from financial instruments, an entity shall disclose:

- 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*)
- 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 types of risks that they may need to disclose, specific to their own circumstances.

### Financial instruments: Credit risk [AASB 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.

Contract financial assets are written off against the carrying amount when there is no reasonable expectation of recovery. Bad debt written off by mutual consent is classified as a transaction expense. Bad debt written off following a unilateral decision is recognised as other economic flows in the net result.

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 20X1-X2.

### Credit quality of financial assets <sup>(a)(b)</sup> [AASB 7.35M] (\$ thousand)

| 20X2   | <i>Financial institution<br/>(triple-A credit rating)</i> | <i>Government agencies<br/>(triple-B credit rating)</i> | <i>Other<br/>(min triple-B credit rating)</i> | <i>Total</i>  |
|--|---|---|---|---------------|
| <b>Financial assets</b>  |   |   |   |               |
| <b>Financial assets with loss allowance measured at 12-month expected credit loss</b>  |   |   |   |               |
| Cash and deposits (not assessed for impairment due to materiality)                     | 24 112  | 8 929   | 2 976   | 36 017        |
| Statutory receivables (with no impairment loss recognised)                             | 31 951  | ..  | ..  | 31 951        |
| Debt investment measured at amortised cost   | 2 890   | ..  | ..  | 2 890         |
| <b>Financial assets with loss allowance measured at lifetime expected credit loss:</b> |   |   |   |               |
| Contractual receivables applying the simplified approach for impairment                | 1 923   | 723   | 749   | 3 395         |
| <b>Total financial assets</b>  | <b>60 876</b>   | <b>9 652</b>  | <b>3 725</b>                                  | <b>74 253</b> |

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.]

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Credit quality of contractual financial assets that are neither past due nor impaired <sup>(a)(b)</sup> [AASB 7.36(c)]

(\$ thousand)

| 20X1   | Financial institution<br>(triple-A credit rating) | Government agencies<br>(triple-A credit rating) | Government agencies<br>(triple-B credit rating) | Other<br>(min triple-B credit rating) | Total         |
|--|---|---|---|---------------------------------------|---------------|
| <b>Financial assets</b>  |   |   |   |                                       |               |
| <b>Financial assets with loss allowance measured at 12-month expected credit loss</b>  |   |   |   |                                       |               |
| Cash and deposits (not assessed for impairment due to materiality)                     | 20 895  | 18 224  | 7 297   | 2 432                                 | 48 848        |
| Statutory receivables (with no impairment loss recognised)                             | 16 675  | ..  | ..  | ..                                    | 16 675        |
| Debt investment measured at amortised cost   | 5 130   | 5 013   | ..  | ..                                    | 10 143        |
| <b>Financial assets with loss allowance measured at lifetime expected credit loss:</b> |   |   |   |                                       |               |
| Contractual receivables applying the simplified approach for impairment                | 1 794   | 1 294   | 560   | 549                                   | 4 197         |
| <b>Total financial assets</b>  | <b>44 494</b>                                     | <b>24 531</b>                                   | <b>7 857</b>                                    | <b>2 981</b>                          | <b>79 863</b> |

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.]

### Impairment of financial assets under AASB 9

The Department records the allowance for expected credit loss for the relevant financial instruments applying AASB 9's Expected Credit Loss approach. Subject to AASB 9 impairment assessment include the Department's contractual receivables, statutory receivables and its investment in debt instruments. [AASB 9.5.5.1]

Equity instruments are not subject to impairment under AASB 9. Other financial assets mandatorily measured or designated at fair value through net result are not subject to impairment assessment under AASB 9. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

Although not a financial asset, contract assets recognised applying AASB 15 (refer to Note 6.1) are also subject to impairment however it is immaterial. [AASB 9.5.5.1]

### Contractual receivables at amortised cost

The Department applies AASB 9 simplified approach for all contractual receivables to measure expected credit losses using a lifetime expected loss allowance based on the assumptions about risk of default and expected loss rates. The Department has grouped contractual receivables on shared credit risk characteristics and days past due and select the expected credit loss rate based on the Department's past history, existing market conditions, as well as forward looking estimates at the end of the financial year.

On this basis, the Department determines the closing loss allowance at the end of the financial year as follows:

(\$ thousand)

| Source reference | 30 June 20X1                                     | Less than<br>1 month | 1-3<br>months | 3 months<br>- 1 year | 1-5<br>years | Total      |
|------------------|--|----------------------|---------------|----------------------|--------------|------------|
| AASB 7.35K(a),6  | <b>Expected loss rate (%)</b>                    | ..                   | 4             | 15                   | 50           | 95         |
|                  | Gross carrying amount of contractual receivables | 3 433                | 237           | 86                   | 68           | 373        |
|                  | <b>Loss allowance</b>                            | ..                   | <b>9</b>      | <b>13</b>            | <b>34</b>    | <b>354</b> |
|                  | <b>410</b>                                       |                      |               |                      |              |            |
| Source reference | 30 June 20X2                                     |                      |               |                      |              |            |
| AASB 7.35K(a),6  | <b>Expected loss rate (%)</b>                    | ..                   | 3             | 12                   | 44           | 94         |
|                  | Gross carrying amount of contractual receivables | 3 735                | 198           | 105                  | 70           | 589        |
|                  | <b>Loss allowance</b>                            | ..                   | <b>6</b>      | <b>13</b>            | <b>31</b>    | <b>554</b> |
|                  | <b>603</b>                                       |                      |               |                      |              |            |

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Reconciliation of the movement in the loss allowance for contractual receivables is shown as follows:

|  | (\$ thousand) |              |
|--|---------------|--------------|
| <i>Source reference</i>  | 20X2          | 20X1         |
| <b>Balance at beginning of the year</b>  | <b>(327)</b>  | <b>(53)</b>  |
| <b>Opening Loss Allowance</b>  | <b>(327)</b>  | <b>(53)</b>  |
| AASB 7.35I (a) Transfers in / acquired outputs   | (25)          | ..           |
| AASB 7.35I (b) Transfers out / disposed outputs  | 137           | ..           |
| AASB 7.35I (d) Modification of contractual cash flows on financial assets                        | ..            | ..           |
| AASB 7.35I (c) Increase in provision recognised in the net result                                | 4 732         | (341)        |
| AASB 7.35I (c) Reversal of provision of receivables written off during the year as uncollectible | 30            | 52           |
| AASB 7.35H(b)(iii) Reversal of unused provision recognised in the net result                     | 150           | 15           |
| <b>Balance at end of the year</b>  | <b>4 697</b>  | <b>(327)</b> |

Credit loss allowance is classified as other economic flows in the net result. Contractual receivables are written off when there is no reasonable expectation of recovery and impairment losses are classified as a transaction expense. Subsequent recoveries of amounts previously written off are credited against the same line item.

In prior years, 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. A provision is made for estimated irrecoverable amounts from the sale of goods when there is objective evidence that an individual receivable is impaired. Bad debts are considered as written off by mutual consent.

### Statutory receivables and debt investments at amortised cost [AASB 9.Aus2.1.1]

The Department's non-contractual receivables arising from statutory requirements are not financial instruments. However, they are nevertheless recognised and measured in accordance with AASB 9 requirements as if those receivables are financial instruments.

The Department also has investments in five-year government bonds and debentures.

Both the statutory receivables and investments in debt instruments are considered to have low credit risk, taking into account the counterparty's credit rating, risk of default and capacity to meet contractual cash flow obligations in the near term. As the result, the loss allowance recognised for these financial assets during the period was limited to 12 months of expected losses. No loss allowance has been recognised.

### Debt investments at fair value through net result [AASB 7.36(a)]

The Department is also exposed to credit risk in relation to debt instruments that are designated at fair value through net result. The maximum exposure at the end of the reporting period is the carrying amount of these investments (20X2: \$3 823 000; 20X1: \$2 149 000).

## Guidance – Credit risk disclosures

### Credit risk [AASB 7.35B] and [AASB 7.36]

The credit risk disclosures intend to enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

- information about an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses
- quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes
- information about an entity's credit risk exposure (i.e. the credit risk inherent in an entity's financial assets and commitments to extend credit), including significant credit risk concentrations. [AASB 7.35B]

For all financial instruments within the scope of this standard, but to which the impairment requirements in AASB 9 are not applied, an entity shall, in addition to the required quantitative disclosure above, disclose by class of financial instrument:

- 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). This disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk
- a description of collateral held as security and other credit enhancements, and their financial effect (e.g. quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument). [AASB 7.36]

### Impairment – expected credit loss [AASB 9.5.5]

AASB 9 requires the entity to assess impairment loss using the 'expected credit loss' (ECL) model. Under the ECL model, the allowance for credit losses is calculated by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability-weighted outcomes. Because every loan and receivable carries with it some risk of default, every such asset has an expected loss attached to it – from the moment of its origination or acquisition.

AASB 9 establishes three separate approaches for measuring and recognising expected credit losses:

- A general approach that applies to all loans and receivables not eligible for the other approaches
- A simplified approach that is required for certain trade receivables and lease receivables
- A 'credit adjusted approach' that applies to loans that are credit impaired at initial recognition (e.g. loans acquired at a deep discount due to their credit risk).

A distinguishing factor among the approaches is whether the allowance for expected credit losses at any balance sheet date is calculated by considering possible defaults only for the next 12 months ('12-month ECLs') or for the entire remaining life of the asset ('Lifetime ECLs').

Under both the general and simplified approach, the loss allowance is measured in the same period as an asset is recognised. Under the general approach, the loss allowance is based on 12-month ECLs unless a significant increase in credit risk occurs. In this case, loss allowance is measured based on lifetime ECLs unless the increase reverses.

An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk of default at the reporting date [AASB 9.B.5.5.10]. Financial instruments are not considered to have low risk simply because of the value of collateral without which the financial instrument would not be considered low credit risk. Financial instruments are not considered to have low credit risk simply because they have a lower risk of default than the entity's other financial instruments or relative to the credit risk of the jurisdiction within which an entity operates. [AASB 9.B.5.5.22].

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Indicators for significant increase in credit risk (and as the result the impairment assessment moves from 12-month ECLs to Lifetime ECLs) include:

- changes in general economic or market conditions
- significant changes in financial position or operating results of a borrower
- changes in financial support from parent or group companies
- expected or potential breaches of covenants
- expected delay in payment.

If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period but determines at the current reporting date that the credit risk has not increased significantly since initial recognition, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date. [AASB 9.5.5.7]

Under the simplified approach, loss allowance is measured based on lifetime ECLs. For example, expected credit losses for trade receivables from large number of small customers is often determined based on provision matrix, which is in turn, based on historical observed default rates, adjusted for forward looking estimates.

Credit adjusted approach should be used when there is objective evidence of impairment and measures expected credit loss based on cumulative change in lifetime ECL since initial recognition of the asset. Unlike the general and simplified approach where interest (if applicable) is calculated on gross basis, under the credit adjust approach interest is calculated on net basis (gross carrying amount less loss allowance).

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower
- A breach of contract, such as a default or past due event
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- The disappearance of an active market for that financial asset because of financial difficulties
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

**Contract assets recognised applying AASB 15:** Contract assets are required to be assessed for impairment in accordance with AASB 9. Impairment of a contract asset is required to be measured, presented and disclosed on the same basis as a financial asset that is within the scope of AASB 9. Where material, the disclosures in this note should incorporate contract asset impairment information. [AASB 15.107, AASB 9.5.5.1, AASB 7.35H and 35M]

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired. [Appendix A of AASB 9]

Debt investments carried at fair value through other comprehensive income are also subject to the expected credit loss model. However, the loss allowance is recognised in profit or loss and reduces the fair value loss otherwise recognised in other comprehensive income.

To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

- the loss allowance measured at an amount equal to 12-month expected credit losses
- the loss allowance measured at an amount equal to lifetime expected credit losses for:
  - financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets
  - financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit impaired)
  - trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of AASB 9.
- financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period. [AASB 7.35H]

**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
- when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

**Financial instruments at fair value through net result [AASB 7.9] and [AASB 7.10]**

If the entity has designated as measured at fair value through net result a financial asset (or group of financial assets) that would otherwise be measured at fair value through other comprehensive income or amortised cost, it shall disclose:

- the maximum exposure to credit risk of the contractual financial asset (or group of financial assets) at the end of the reporting period
- the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk
- the amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the contractual financial asset determined either:
  - as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk
  - 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.
- 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
- 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. [AASB 7.9]

If the entity has designated a financial liability as at fair value through net result in accordance with paragraph 4.2.2 of AASB 9 and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see paragraph 5.7.7 of AASB 9), it shall disclose:

- the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk (see paragraphs B5.7.13–B5.7.20 of AASB 9 for guidance on determining the effects of changes in a liability's credit risk)
- 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
- any transfers of the cumulative gain or loss within equity during the period, including the reason for such transfers
- if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition. [AASB 7.10]

### Assets received as collateral

#### Guidance – Assets received as collateral [AASB 7.15]

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:

- the fair value of the collateral held
- the fair value of any such collateral sold or repledged and whether the entity has an obligation to return it
- the terms and conditions associated with its use of the collateral. [AASB 7.15]

If 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 9.3.2.23]

#### Financial instruments: Liquidity risk [AASB 7.7, 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
- a high credit rating for the State of Victoria (Moody's Investor Services and Standard & Poor's double-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 (20X1: \$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.

## 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
- (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:

- not later than one month
- later than one month and not later than three months
- later than three months and not later than one year
- later than one year and not later than five years
- 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:

- 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
- 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
- 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:

- gross lease obligations (before deducting finance charges)
- prices specified in forward agreements to purchase financial assets for cash
- net amounts for pay floating/receive fixed interest rate swaps for which net cash flows are exchanged
- contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged
- gross loan commitments. [AASB 7.B11D]

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### 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 (20X2: 15 per cent, depreciation of AUD) and 15 per cent up (20X1: 15 per cent, appreciation of AUD) against the USD, from the year end rate of 0.90 (20X1: 0.90)
- A movement of 15 per cent up and down (20X1: 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.]

#### 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.

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Interest rate exposure of financial instruments [AASB 7.34(a)]

(\$ thousand)

| 20X2   | Weighted average<br>interest rate (%) | Carrying<br>amount | Fixed interest<br>rate | Variable<br>interest rate | Non-interest<br>bearing |
|--|---------------------------------------|--------------------|------------------------|---------------------------|-------------------------|
| <b>Financial assets</b>                            |                                       |                    |                        |                           |                         |
| Cash and deposits                                  | 3                                     | 71 803             | ..                     | 71 803                    | ..                      |
| Receivables <sup>(a)</sup>                         |                                       |                    |                        |                           |                         |
| Finance lease receivables                          | 5                                     | 581                | 581                    | ..                        | ..                      |
| Sale of goods and services                         |                                       | 1 374              | ..                     | ..                        | 1 374                   |
| Loans to third parties                             |                                       | 544                | ..                     | ..                        | 544                     |
| Accrued investment income                          |                                       | 1 864              | ..                     | ..                        | 1 864                   |
| Other receivables                                  |                                       | 334                | ..                     | ..                        | 334                     |
| Investments and other contractual financial assets |                                       |                    |                        |                           |                         |
| Equities and managed investment schemes            |                                       | 2 165              | ..                     | ..                        | 2 165                   |
| Term deposits                                      | 4                                     | 2 890              | ..                     | 2 890                     | ..                      |
| Debt securities                                    | 5                                     | 9 021              | 5 198                  | 3 823                     | ..                      |
| <b>Total financial assets</b>                      |                                       | <b>90 576</b>      | <b>5 779</b>           | <b>78 516</b>             | <b>6 281</b>            |
| <b>Financial liabilities</b>                       |                                       |                    |                        |                           |                         |
| <b>Payables <sup>(a)</sup></b>                     |                                       |                    |                        |                           |                         |
| Supplies and services                              |                                       | 4 508              | ..                     | ..                        | 4 508                   |
| Amounts payable to government and agencies         |                                       | 10 891             | ..                     | ..                        | 10 891                  |
| Other payables                                     |                                       | 817                | ..                     | ..                        | 817                     |
| <b>Borrowings</b>                                  |                                       |                    |                        |                           |                         |
| Lease liabilities                                  | 5                                     | 8 064              | 8 064                  | ..                        | ..                      |
| Service concession financial liability             | 6                                     | 58 500             | ..                     | ..                        | ..                      |
| Advances from government                           |                                       | 5 313              | ..                     | ..                        | 5 313                   |
| Loans from TCV                                     | 4                                     | 48 696             | 48 696                 | ..                        | ..                      |
| <b>Total financial liabilities</b>                 |                                       | <b>136 789</b>     | <b>56 760</b>          | <b>..</b>                 | <b>21 529</b>           |

(\$ thousand)

| 20X1  | Weighted average<br>interest rate (%) | Carrying<br>amount | Fixed interest<br>rate | Variable<br>interest rate | Non-interest<br>bearing |
|---|---------------------------------------|--------------------|------------------------|---------------------------|-------------------------|
| <b>Financial assets</b>   |                                       |                    |                        |                           |                         |
| Cash and deposits   | 4                                     | 66 443             | ..                     | 66 443                    | ..                      |
| Receivables <sup>(a)</sup>  |                                       |                    |                        |                           |                         |
| Finance lease receivables   | 4                                     | 1 231              | 1 231                  | ..                        | ..                      |
| Sale of goods and services  |                                       | 965                | ..                     | ..                        | 965                     |
| 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   | 4                                     | 5 130              | ..                     | 5 130                     | ..                      |
| Debt securities   | 5                                     | 7 422              | 5 013                  | 2 409                     | ..                      |
| <b>Total financial assets</b>   |                                       | <b>87 351</b>      | <b>6 244</b>           | <b>73 982</b>             | <b>7 125</b>            |
| <b>Financial liabilities</b>  |                                       |                    |                        |                           |                         |
| <b>Payables <sup>(a)</sup></b>  |                                       |                    |                        |                           |                         |
| Supplies and services   |                                       | 3 387              | ..                     | ..                        | 3 387                   |
| Amounts payable to government and agencies                            |                                       | 1 796              | ..                     | ..                        | 1 796                   |
| Other payables  |                                       | 8 925              | ..                     | ..                        | 8 925                   |
| <b>Borrowings</b>   |                                       |                    |                        |                           |                         |
| Bank overdraft  | 10                                    | 5 437              | ..                     | 5 437                     | ..                      |
| Lease liabilities   | 5                                     | 20 062             | 20 062                 | ..                        | ..                      |
| Service concession financial liability                                | 6                                     | 59 500             | ..                     | ..                        | ..                      |
| Advances from government  |                                       | 12 344             | ..                     | ..                        | 12 344                  |
| Loans from TCV  | 5                                     | 27 705             | 27 705                 | ..                        | ..                      |
| Financial liabilities designated at fair value through profit or loss | 6                                     | 200                | ..                     | 200                       | ..                      |
| <b>Total financial liabilities</b>                                    |                                       | <b>139 356</b>     | <b>47 767</b>          | <b>5 637</b>              | <b>26 452</b>           |

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

### Interest rate risk sensitivity [AASB 7.31, 34, 40(a)] (\$ thousand)

| 20X2  | Carrying amount | -100 basis points |  | +100 basis points |  |
|---|-----------------|-------------------|--|-------------------|--|
|   |                 | Net result        | Fair value through OCI revaluation reserve | Net result        | Fair value through OCI revaluation reserve |
| Contractual financial assets                                      |                 |                   |  |                   |  |
| Cash and deposits <sup>(a)</sup>                                  | 69 774          | (698)             | ..   | 698               | ..   |
| Investments and other contractual financial assets <sup>(b)</sup> | 6 713           | (67)              | ..   | 67                | ..   |
| <b>Total impact</b>   |                 | <b>(662)</b>      | ..   | <b>(662)</b>      | ..   |

| 20X1  |        |              |    |            |    |
|---|--------|--------------|----|------------|----|
| Contractual financial assets                                      |        |              |    |            |    |
| Cash and deposits <sup>(a)</sup>                                  | 65 723 | (657)        | .. | 657        | .. |
| Investments and other contractual financial assets <sup>(b)</sup> | 7 539  | (75)         | .. | 75         | .. |
| <b>Total impact</b>   |        | <b>(733)</b> | .. | <b>733</b> | .. |
| Contractual financial liabilities                                 |        |              |    |            |    |
| Borrowings <sup>(b)</sup>   | 5 637  | (56)         | .. | 56         | .. |
| <b>Total impact</b>   |        | <b>(56)</b>  | .. | <b>54</b>  | .. |

Notes:

- (a) Cash and deposits include a deposit of \$59 728 thousand (20X1: \$48 848 thousand) that is exposed to floating rates movements. Sensitivities to these movements are calculated as follows:
- 20X2: \$59 728 thousand × 0.01 = \$595 thousand; and \$59 728 thousand × 0.01 = \$595 thousand; and
  - 20X1: \$48 848 thousand × 0.01 = \$486 thousand; and \$48 848 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.]

**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. Risk is minimal, as the Department has a limited amount of transactions denominated in foreign currencies and there is a relatively short timeframe between commitment and settlement.

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)

| 20X2  | Carrying amount | Net result   | -15%                                       |                | 15%  |            |
|---|-----------------|--------------|--|----------------|--|------------|
|   |                 |              | Fair value through OCI revaluation reserve | Net result     | Fair value through OCI revaluation reserve | Net result |
| Contractual financial assets                                      |                 |              |  |                |  |            |
| Cash and deposits <sup>(a)</sup>                                  | 9 712           | 1 714        | ..   | (1 267)        | ..   | ..         |
| Receivables <sup>(b)(c)</sup>                                     | 4 094           | 722          | ..   | (534)          | ..   | ..         |
| Investments and other contractual financial assets <sup>(c)</sup> | 997             | 176          | ..   | (130)          | ..   | ..         |
| <b>Total impact</b>   |                 | <b>2 612</b> |  | <b>(1 931)</b> |  |            |
| Contractual financial liabilities                                 |                 |              |  |                |  |            |
| Payables <sup>(b)(c)</sup>  | 730             | 129          | ..   | (95)           | ..   | ..         |
| <b>Total impact</b>   |                 | <b>(129)</b> |  | <b>95</b>      |  |            |

**20X1**

|   |       |              |    |                |    |    |
|---|-------|--------------|----|----------------|----|----|
| Contractual financial assets                                      |       |              |    |                |    |    |
| Cash and deposits <sup>(a)</sup>                                  | 7 936 | 1 400        | .. | (1 035)        | .. | .. |
| Receivables <sup>(b)(c)</sup>                                     | 3 850 | 679          | .. | (502)          | .. | .. |
| Investments and other contractual financial assets <sup>(c)</sup> | 750   | 132          | .. | (98)           | .. | .. |
| <b>Total impact</b>   |       | <b>2 211</b> |    | <b>(1 635)</b> |    |    |
| Contractual financial liabilities                                 |       |              |    |                |    |    |
| Payables <sup>(b)(c)</sup>  | 866   | 153          | .. | (113)          | .. | .. |
| <b>Total impact</b>   |       | <b>(153)</b> |    | <b>113</b>     |    |    |

**Notes:**

- (a) Cash and deposits include a deposit of \$9 712 thousand (20X1: \$7 936 thousand) that is exposed to USD foreign currency movements. Sensitivities to these movements are calculated as follows:
- 20X2: [ $\$9\,712\text{ thousand} \times 0.9/(0.9(1-0.15))$ ] - \$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
  - 20X1: [ $\$7\,936\text{ thousand} \times 0.9/(0.9(1-0.15))$ ] - \$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)]
- (b) 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]
- (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)

| 20X2  | Carrying amount | Net result   | -15%                                       | 15%  |
|---|-----------------|--------------|--|--|
|   |                 |              | Fair value through OCI revaluation reserve | Fair value through OCI revaluation reserve |
| Contractual financial assets                                      |                 |              |  |  |
| Investments and other contractual financial assets <sup>(a)</sup> | 2 165           | (276)        | (48)                                       | 276  |
| <b>Total impact</b>   |                 | <b>(276)</b> | <b>(48)</b>                                | <b>276</b>                                 |

| 20X1  |       |           |              |            |
|---|-------|-----------|--------------|------------|
| Contractual financial assets                                      |       |           |              |            |
| Investments and other contractual financial assets <sup>(a)</sup> | 4 179 | ..        | (627)        | 627        |
| <b>Total impact</b>   |       | <b>..</b> | <b>(627)</b> | <b>627</b> |

Note:

- (a) Investments and other contractual financial assets include equities and managed investment schemes to the value of \$2 065 000 (20X1: \$4 179 000) that are exposed to movements in equity prices. Sensitivities to these movements are calculated as follows:
- 20X2: net result: \$1 843 000 x ±0.15 = \$276 000; and
  - 20X2: Fair Value OCI Revaluation surplus: \$222 000 x ±0.15 = ±\$33 000; and
  - 20X1: AFS Revaluation Surplus: \$4 179 000 x ±0.15 = ±\$627 000.

[AASB 7.40(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.]

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 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
- the methods and assumptions used in preparing the sensitivity analysis
- 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]

**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)    | Interest income (expense) | Carrying value  | Interest income (expense) | Carrying value | <p><b>Leases are held at amortised cost</b></p> <ul style="list-style-type: none"> <li>• If these are at a fixed rate there will be no impact</li> <li>• If these are at a floating rate the impact will need to be quantified</li> </ul> <p><b>Term deposits are held at amortised cost</b></p> <ul style="list-style-type: none"> <li>• Normally at a fixed rate so there will be no impact</li> </ul> |
|                                 | No change                 | <b>Decrease</b> | No change                 | No change      |  |
| Floating rate asset (liability) | Interest income (expense) | Carrying value  | Interest income (expense) | Carrying value | <p><b>Cash deposits are normally at call</b></p> <ul style="list-style-type: none"> <li>• Normally at a floating rate so the impact will need to be quantified</li> </ul>  |
|                                 | <b>Increase</b>           | No change       | <b>Increase</b>           | No change      |  |

**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)    | Interest income (expense) | Carrying value  | Interest income (expense) | Carrying value | <p><b>Leases are held at amortised cost</b></p> <ul style="list-style-type: none"> <li>• If these are at a fixed rate there will be no impact</li> <li>• If these are at a floating rate the impact will need to be quantified</li> </ul> <p><b>Term deposits are held at amortised cost</b></p> <ul style="list-style-type: none"> <li>• Normally at a fixed rate so there will be no impact</li> </ul> |
|                                 | No change                 | <b>Increase</b> | No change                 | No change      |  |
| Floating rate asset (liability) | Interest income (expense) | Carrying value  | Interest income (expense) | Carrying value | <p><b>Cash deposits are normally at call</b></p> <ul style="list-style-type: none"> <li>• Normally at a floating rate so the impact will need to be quantified</li> </ul>  |
|                                 | <b>Decrease</b>           | No change       | <b>Decrease</b>           | No change      |  |

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### 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
- 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]

### 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:

- an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided
- 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.

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## 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) |           |
|---|---------------|-----------|
|   | 20X2          | 20X1      |
| Contingent assets   |               |           |
| Guarantees <sup>(a)</sup>   | 140           | ..        |
| Early termination of contractual arrangement                        | ..            | ..        |
|   | <b>140</b>    | <b>..</b> |

Note:

(a) The Department has a claim outstanding against a supplier for the supply of faulty products. Based on negotiations to date, management believes 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
- 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
  - 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
- unclaimed monies, which may be subject to future claims by the general public against the State.

| Quantifiable contingent liabilities  | (\$ thousand) |            |
|--|---------------|------------|
|  | 20X2          | 20X1       |
| Legal proceedings and disputes <sup>(a)</sup>  | 250           | 210        |
| Share of an associate's contingent liabilities <sup>(b)</sup>  | ..            | ..         |
| Share of a joint ventures' contingent liabilities  | ..            | ..         |
| Guarantees for loans to other entities <sup>(c)</sup>  | 200           | 200        |
| <b>Total</b>   | <b>450</b>    | <b>410</b> |
| <b>The Department is severally liable for all/part of the liabilities of an associate, [name] <sup>(d)</sup></b> |               |            |

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 20X2.
- (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 20X2. 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
- 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.

### 8.3 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 profit or loss
- financial assets at fair value through other comprehensive income land, buildings, infrastructure, plant and equipment
- investment properties
- 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
- 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:
  - 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
  - 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. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### 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
- 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 20X1-X2 reporting period. [AASB 7.29(a)]

These financial instruments include:

| <i>Financial assets</i>  | <i>Financial liabilities</i>  |
|--|---|
| Cash and deposits  | Payables:   |
| Receivables:   | <ul style="list-style-type: none"> <li>• For supplies and services</li> <li>• Amounts payable to government and agencies</li> <li>• Other payables</li> </ul> |
| <ul style="list-style-type: none"> <li>• Sale of goods and services</li> <li>• Accrued investment income</li> <li>• Other receivables</li> </ul> | Borrowings:   |
| Investments and other contractual financial assets:  | <ul style="list-style-type: none"> <li>• Bank overdraft</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Term deposits</li> </ul>  |   |

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    |               |
|---|-----------------|---------------|---------------|---------------|
|   | 20X2            | 20X2          | 20X1          | 20X1          |
| AASB 13.93(b)(d)                        |                 |               |               |               |
| <b>Financial assets</b>                 |                 |               |               |               |
| <b>Receivables <sup>(a)</sup></b>       |                 |               |               |               |
| Finance lease receivables               | 581             | 590           | 1 231         | 1 450         |
| Loans to third parties                  | 544             | 159           | 241           | 250           |
| Debt securities <sup>(a)</sup>          | 5 198           | 5 222         | 5 013         | 5 155         |
| <b>Financial liabilities</b>            |                 |               |               |               |
| Finance lease liabilities               | 8 064           | 8 110         | 20 062        | 21 500        |
| Advances from government <sup>(b)</sup> | 5 313           | 5 579         | 12 344        | 12 961        |
| Service concession financial liability  | 58 500          | 58 645        | 59 500        | 59 620        |
| <b>Loans from TCV</b>                   | <b>48 696</b>   | <b>47 500</b> | <b>27 705</b> | <b>23 000</b> |

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 (20X1: 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.

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Financial assets and liabilities measured at fair value <sup>(a)</sup> [AASB 13.93(b)] (\$ thousand)

| Source reference | 20X2   | Carrying amount as at 30 June | Fair value measurement at end of reporting period using: |                        |            |
|------------------|--|-------------------------------|--|------------------------|------------|
|                  |  |                               | Level 1 <sup>(b)</sup>                                   | Level 2 <sup>(b)</sup> | Level 3    |
| AASB 13.93(b)    | Financial assets at FVTPL                              |                               |  |                        |            |
|                  | Five-year government bonds                             | 3 823                         | ..   | 3 823                  | ..         |
|                  | Managed investment schemes                             | 229                           | ..   | 229                    | ..         |
|                  | Listed securities                                      | 1 614                         | 1 614  | ..                     | ..         |
|                  | Financial assets at FVOCI                              |                               |  |                        |            |
|                  | Unlisted securities                                    | 322                           | ..   | ..                     | 322        |
|                  | Financial liabilities at fair value through net result | 150                           | ..   | 150                    | ..         |
|                  | <b>Total</b>   | <b>6 138</b>                  | <b>1 614</b>   | <b>4 202</b>           | <b>322</b> |

| Source reference | 20X1   | Carrying amount as at 30 June | Fair value measurement at end of reporting period using: |                        |            |
|------------------|--|-------------------------------|--|------------------------|------------|
|                  |  |                               | Level 1 <sup>(b)</sup>                                   | Level 2 <sup>(b)</sup> | Level 3    |
| AASB 13.93 (b)   | Financial assets at FVTPL                              |                               |  |                        |            |
|                  | 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                  | ..         |
|                  | Financial liabilities at fair value through net result | 200                           | ..   | 200                    | ..         |
|                  | <b>Total</b>   | <b>6 788</b>                  | <b>1 492</b>   | <b>4 758</b>           | <b>538</b> |

#### 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 9.4.1 paragraph 9.] [AASB 7.26]
- (b) There is no significant transfer between Level 1 and Level 2.

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.

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Reconciliation of Level 3 fair value movements <sup>(a)</sup>

(\$ thousand)

| <i>Source reference</i>   | <i>Financial assets at fair value through other comprehensive income</i> | <i>Available for sale financial assets through other comprehensive income</i> |             | <i>Total</i> |  |
|---|--|---|-------------|--------------|--|
|   | <i>Unlisted securities</i>   |   |             |              |  |
| <i>AASB 13.93(d)(e)</i>   | <i>20X2</i>  | <i>20X1</i>   | <i>20X2</i> | <i>20X1</i>  |  |
| Opening balance   | 538  | 509   | 538         | 509          |  |
| Total gains or losses recognised in:  |  |   |             |              |  |
| net result  | ..   | ..  | ..          | ..           |  |
| other comprehensive income  | 100  | ..  | 100         | ..           |  |
| 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 <sup>(b)</sup>   | (37)   | ..  | (37)        | ..           |  |
| Closing balance   | 322  | 538   | 322         | 538          |  |
| <b>Total gains or losses for the period included in profit or loss for assets held at the end of the period</b> | <b>..</b>  | <b>..</b>   | <b>..</b>   | <b>..</b>    |  |

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)]

|   | Valuation technique <sup>(a)</sup> | Significant unobservable inputs <sup>(a)</sup>            | Range (weighted average) % <sup>(a)</sup> | Sensitivity of fair value measurement to changes in significant unobservable inputs <sup>(b)</sup>                    |
|---|------------------------------------|---|---|---|
| <b>Unlisted securities</b>                          | 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      |
| <b>Discontinued operation – unlisted securities</b> | 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.

### Guidance – Fair value determination of financial assets and liabilities

#### Carrying amount and fair value disclosures [AASB 7.25 and AASB 13.93]

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:

- the level in the fair value hierarchy in accordance with the levels defined in AASB 13.76-90 [AASB 13.93(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 13.93(c)]
- for Level 3 of the fair value hierarchy, a reconciliation of opening balances to closing balances shown separately, including:
  - 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 13.93(e)]
- 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) [AASB 13.93(f)]
- 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 13.93(h)(ii)]

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 13.73]

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
- whether the effect disclosed represents the movement in a single input or a movement in all unobservable inputs.

**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:

- state if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly and disclose the effect of those changes
- 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
- (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:

- the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably
  - a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably
  - information about the market for the instruments
  - information about whether and how the entity intends to dispose of the financial instruments
  - 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 [REVISED]

Fair value measurement hierarchy [AASB 13.93 (a)(b)]

(\$ thousand)

| 20X2  | Carrying amount<br>as at 30 June 20X2 | Fair value measurement at end of<br>reporting period using: |                        |                        |
|---|---------------------------------------|---|------------------------|------------------------|
|   |                                       | Level 1 <sup>(a)</sup>                                      | Level 2 <sup>(a)</sup> | Level 3 <sup>(a)</sup> |
| Land at fair value  |                                       |   |                        |                        |
| Non-specialised land  | 1 778                                 | ..  | 1 778                  | ..                     |
| Specialised land  | 2 784                                 | ..  | ..                     | 2 784                  |
| <b>Total of land at fair value</b>                                | <b>4 562</b>                          | <b>..</b>   | <b>1 778</b>           | <b>2 784</b>           |
| Buildings at fair value   |                                       |   |                        |                        |
| Non-specialised buildings   | 6 877                                 | ..  | 6 877                  | ..                     |
| Specialised buildings   | 63 323                                | ..  | ..                     | 63 323                 |
| Heritage assets <sup>(b)</sup>                                    | 10 596                                | ..  | ..                     | 10 596                 |
| <b>Total of buildings at fair value</b>                           | <b>80 796</b>                         | <b>..</b>   | <b>6 877</b>           | <b>73 919</b>          |
| Plant, equipment and vehicles at fair value                       |                                       |   |                        |                        |
| Vehicles <sup>(c)</sup>   | 16 941                                | ..  | ..                     | 16 941                 |
| Plant and equipment   | 34 598                                | ..  | ..                     | 34 598                 |
| <b>Total of plant, equipment and vehicles at fair value</b>       | <b>51 539</b>                         | <b>..</b>   | <b>..</b>              | <b>51 539</b>          |
| Infrastructure at fair value                                      |                                       |   |                        |                        |
| Infrastructure  | 1 685                                 | ..  | ..                     | 1 685                  |
| <b>Total of infrastructure at fair value</b>                      | <b>1 685</b>                          | <b>..</b>   | <b>..</b>              | <b>1 685</b>           |
| <b>Road, infrastructure and earthworks at fair value</b>          |                                       |   |                        |                        |
| Road, infrastructure and earthworks at fair value                 | 2 257                                 | ..  | ..                     | 2 257                  |
| <b>Total of road, infrastructure and earthworks at fair value</b> | <b>2 257</b>                          | <b>..</b>   | <b>..</b>              | <b>2 257</b>           |
| Cultural assets at fair value                                     |                                       |   |                        |                        |
| Artworks  | 2 764                                 | ..  | 2 764                  | ..                     |
| <b>Total of cultural assets at fair value</b>                     | <b>2 764</b>                          | <b>..</b>   | <b>2 764</b>           | <b>..</b>              |
| Intangible assets at fair value                                   |                                       |   |                        |                        |
| Intellectual property database                                    | 2 000                                 | ..  | ..                     | 2 000                  |
| <b>Total of intangible assets at fair value</b>                   | <b>2 000</b>                          | <b>..</b>   | <b>..</b>              | <b>2 000</b>           |

| 20X1  | Carrying amount<br>as at 30 June 20X1 | Fair value measurement at end of<br>reporting period using: |                        |                        |
|---|---------------------------------------|---|------------------------|------------------------|
|   |                                       | Level 1 <sup>(a)</sup>                                      | Level 2 <sup>(b)</sup> | Level 3 <sup>(c)</sup> |
| Land at fair value  |                                       |   |                        |                        |
| Non-specialised land  | 987                                   | ..  | 987                    | ..                     |
| Specialised land  | 2 534                                 | ..  | ..                     | 2 534                  |
| <b>Total of land at fair value</b>                                | <b>3 521</b>                          | <b>..</b>   | <b>987</b>             | <b>2 534</b>           |
| Buildings at fair value   |                                       |   |                        |                        |
| Non-specialised buildings   | 2 082                                 | ..  | 2 082                  | ..                     |
| Specialised buildings   | 63 395                                | ..  | ..                     | 63 395                 |
| Heritage assets <sup>(b)</sup>                                    | 12 553                                | ..  | ..                     | 12 553                 |
| <b>Total of buildings at fair value</b>                           | <b>78 030</b>                         | <b>..</b>   | <b>2 082</b>           | <b>75 948</b>          |
| Plant, equipment and vehicles at fair value                       |                                       |   |                        |                        |
| Vehicles <sup>(c)</sup>   | 15 321                                | ..  | ..                     | 15 231                 |
| Plant and equipment   | 27 788                                | ..  | ..                     | 27 788                 |
| <b>Total of plant, equipment and vehicles at fair value</b>       | <b>43 109</b>                         | <b>..</b>   | <b>..</b>              | <b>43 019</b>          |
| Infrastructure at fair value                                      |                                       |   |                        |                        |
| Infrastructure  | 4 931                                 | ..  | ..                     | 4 931                  |
| <b>Total of infrastructure at fair value</b>                      | <b>4 931</b>                          | <b>..</b>   | <b>..</b>              | <b>4 931</b>           |
| <b>Road, infrastructure and earthworks at fair value</b>          |                                       |   |                        |                        |
| Road, infrastructure and earthworks at fair value                 | 4 993                                 | ..  | ..                     | 4 993                  |
| <b>Total of road, infrastructure and earthworks at fair value</b> | <b>4 993</b>                          | <b>..</b>   | <b>..</b>              | <b>4 993</b>           |
| Cultural assets at fair value                                     |                                       |   |                        |                        |
| Artworks  | ..                                    | ..  | ..                     | ..                     |
| <b>Total of cultural assets at fair value</b>                     | <b>..</b>                             | <b>..</b>   | <b>..</b>              | <b>..</b>              |

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.]

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 was 30 June 20X0. [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 20X2. [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 20X2. [AASB 13.66]

For all assets measured at fair value, the current use is considered the highest and best use. [AASB 13.93(i)]

AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* amended AASB 13 by adding Appendix F *Australian implementation guidance for not-for-profit public sector entities*. Appendix F explains and illustrates the application of the principles in AASB 13 on developing unobservable inputs and the application of the cost approach. These clarifications are mandatorily applicable annual reporting periods beginning on or after 1 January 2024.

FRD 103 permits Victorian public sector entities to apply Appendix F of AASB 13 in their next scheduled formal asset revaluation or interim revaluation (whichever is earlier). Annual fair value assessments for 30 June 20X2 using indices did not give rise to material changes in the value of plant and equipment. In accordance with FRD 103, the Department will apply Appendix F of AASB 13 prospectively in its next scheduled formal revaluation in 20X5 or interim revaluation process (whichever is earlier). [FRD 103.4.5A] The Department does not expect the impact to be material to the financial statements. [Entities to tailor as appropriate depending on their next scheduled formal revaluation for the relevant asset classes based on the nature of assets held. Refer to pages 60-61 for further guidance on sample disclosures].

**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 reflects 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 Department's 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 was 30 June 20X0. Service concession assets recognised as required by AASB 1059 were not revalued at this time. [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.

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

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 was 30 June 20X0. [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 147.

### Reconciliation of Level 3 fair value movements [AASB 13.93 (e)(f)]

(\$ thousand)

| 20X2  | Specialised land | Specialised buildings | Heritage assets | Vehicles      | Plant and equipment | Infrastructure | Road, infrastructure and earthworks | Intangible assets |
|---|------------------|-----------------------|-----------------|---------------|---------------------|----------------|-------------------------------------|-------------------|
| <b>Opening balance</b>  | <b>2 534</b>     | <b>63 395</b>         | <b>12 553</b>   | <b>15 321</b> | <b>27 788</b>       | <b>4 931</b>   | <b>4 993</b>                        | <b>..</b>         |
| Purchases (sales)   | 579              | 11 198                | 479             | 1 870         | 3 385               | (2 419)        | (1 501)                             | 2 000             |
| Transfers in (out) of Level 3   | ..               | ..                    | ..              | ..            | ..                  | ..             | ..                                  | ..                |
| Gains or losses recognised in net result  |                  |                       |                 |               |                     |                |                                     |                   |
| Depreciation  | ..               | (2 470)               | (950)           | (125)         | (238)               | (200)          | (550)                               | ..                |
| Impairment loss   | ..               | (55)                  | (450)           | (125)         | ..                  | (230)          | (300)                               | ..                |
| <b>Subtotal</b>   | <b>..</b>        | <b>(2 525)</b>        | <b>(1 400)</b>  | <b>(250)</b>  | <b>(238)</b>        | <b>(430)</b>   | <b>(850)</b>                        | <b>..</b>         |
| Gains or losses recognised in other economic flows – other comprehensive income |                  |                       |                 |               |                     |                |                                     |                   |
| Revaluation   | (329)            | (89)                  | (1 036)         | ..            | ..                  | (397)          | (385)                               | ..                |
| <b>Subtotal</b>   | <b>(329)</b>     | <b>(89)</b>           | <b>(1 036)</b>  | <b>..</b>     | <b>..</b>           | <b>(397)</b>   | <b>(385)</b>                        | <b>..</b>         |
| <b>Closing balance</b>  | <b>2 784</b>     | <b>62 115</b>         | <b>10 546</b>   | <b>16 941</b> | <b>30 935</b>       | <b>1 685</b>   | <b>2 257</b>                        | <b>2 000</b>      |
| <b>Unrealised gains/(losses) on non-financial assets <sup>(a)</sup></b>         | <b>..</b>        | <b>..</b>             | <b>..</b>       | <b>..</b>     | <b>..</b>           | <b>..</b>      | <b>..</b>                           | <b>..</b>         |

| 20X1  | Specialised land | Specialised buildings | Heritage assets | Vehicles      | Plant and equipment | Infrastructure | Road, infrastructure and earthworks | Intangible assets |
|---|------------------|-----------------------|-----------------|---------------|---------------------|----------------|-------------------------------------|-------------------|
| <b>Opening balance</b>  | <b>2 306</b>     | <b>62 494</b>         | <b>14 943</b>   | <b>13 881</b> | <b>25 016</b>       | <b>7 767</b>   | <b>8 475</b>                        | <b>..</b>         |
| 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)                               | ..                |
| <b>Subtotal</b>   | <b>..</b>        | <b>(100)</b>          | <b>(1 667)</b>  | <b>(251)</b>  | <b>(269)</b>        | <b>(1 258)</b> | <b>(1 881)</b>                      | <b>..</b>         |
| Gains or losses recognised in other economic flows – other comprehensive income |                  |                       |                 |               |                     |                |                                     |                   |
| Revaluation   | (299)            | (72)                  | (1 293)         | ..            | ..                  | (592)          | (852)                               | ..                |
| <b>Subtotal</b>   | <b>(299)</b>     | <b>(72)</b>           | <b>(1 293)</b>  | <b>..</b>     | <b>..</b>           | <b>(592)</b>   | <b>(852)</b>                        | <b>..</b>         |
| <b>Closing balance</b>  | <b>2 534</b>     | <b>63 395</b>         | <b>12 553</b>   | <b>15 321</b> | <b>27 788</b>       | <b>4 931</b>   | <b>4 993</b>                        | <b>..</b>         |
| <b>Unrealised gains/(losses) on non-financial assets <sup>(a)</sup></b>         | <b>..</b>        | <b>..</b>             | <b>..</b>       | <b>..</b>     | <b>..</b>           | <b>..</b>      | <b>..</b>                           | <b>..</b>         |

Note:

(a) [Please note AASB 13 Fair Value Measurement provides an exemption for not-for-profit public sector entities from disclosing '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.]

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Description of significant unobservable inputs to Level 3 valuations [AASB 13.93 (h)(i)]

(\$ thousand)

| 20X1 and 20X2                              | Valuation technique <sup>(a)</sup>      | Significant unobservable inputs <sup>(a)(d)</sup>      | Range (weighted average) <sup>(a)</sup>      | Sensitivity of fair value measurement to changes in significant unobservable inputs <sup>(a)</sup>  |
|--|---|--|--|---|
| <b>Specialised land</b>                    | Market approach                         | Community service obligation (CSO) adjustment          | 50-70 per cent (60 per cent) <sup>(b)</sup>  | A significant increase or decrease in the CSO adjustment would result in a significantly lower (higher) fair value.                       |
| <b>Specialised buildings</b>               | Current replacement cost                | Direct cost per square metre                           | \$1 000–\$1 500/m <sup>2</sup> (\$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.   |
| <b>Heritage assets</b>                     | Current replacement cost <sup>(c)</sup> | Direct cost per square metre                           | \$600–\$900/m <sup>2</sup> (\$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.   |
| <b>Vehicles</b>                            | 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.   |
| <b>Plant and equipment</b>                 | 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.   |
| <b>Infrastructure</b>                      | 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.   |
| <b>Road, infrastructure and earthworks</b> | 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.   |

**Notes:**

- (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 '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.]
- (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.
- (d) Entities to consider updating where appropriate following AASB 13 amendments.

Significant unobservable inputs have remained unchanged since June 20X1.

## 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)

| 20X2                  | Carrying amount<br>as at 30 June | Fair value measurement at end of reporting period using: |                        |                        |
|-----------------------|----------------------------------|--|------------------------|------------------------|
|                       |                                  | Level 1 <sup>(a)</sup>                                   | Level 2 <sup>(a)</sup> | Level 3 <sup>(a)</sup> |
| Investment properties | 2 354                            | n.a.   | 2 354                  | ..                     |
| <b>20X1</b>           |                                  |  |                        |                        |
| 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 20X2. [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 20X2 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 13.83] [REVISED]

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, in the tables in note 8.3.2, 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 16

As Right-of-use Assets are carried at fair value and are classified as property, plant, and equipment as part of the notes, the disclosure requirements of AASB 116 are **not** excluded from AASB 13 as noted below.

AASB 16 paragraph 57 indicates that 'If a lessee measures right-of-use assets at revalued amounts applying AASB 116, the lessee shall disclose the information required by paragraph 77 of AASB 116 for those right-of-use assets'.

AASB 116 applies to property, plant and equipment carried at fair value which notes:

'If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed in addition to the disclosures required by AASB 13:

- the effective date of the revaluation
- whether an independent valuer was involved
- 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
- the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Aus77.1 Notwithstanding paragraph 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.'

### **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.

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
- 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.

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

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

Entities can refer to a [guidance note on fair value measurement of non-financial physical assets](#).

### 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 is required, disclosing separately changes during the period attributable to the following: [FRD 103 Revised]

- 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
- 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
- purchases, sales, issues and settlements (each of those types of changes disclosed separately)
- 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
- 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

- the effective date of the revaluation
- whether an independent valuer was involved
- [requirement deleted by IASB]
- [deleted by the IASB]
- 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
- 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:

- the carrying amount of temporarily idle property, plant and equipment
- the gross carrying amount of any fully depreciated property, plant and equipment that is still in use
- the carrying amount of property, plant and equipment retired from active use and not classified as held-for-sale in accordance with AASB 5
- 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.

**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
- 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 Highest and Best Use (HBU) or by selling it to another market participant that would use the asset in its HBU.

A not-for-profit entity is required to consider whether, for a non-financial asset not held primarily for its ability to generate net cash inflows, the asset's HBU differs from its current use only when, at the measurement date, it is:

- classified as held for sale or held for distribution to owners in accordance with AASB 5
- highly probable that the asset will be used for an alternative purpose to its current use. [FRD 103 Revised]

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

### Biological assets measured at fair value and their categorisation in the fair value hierarchy [AASB 13.93 (a)(b)]

(\$ thousand)

| 20X2           | Carrying amount<br>as at 30 June | Fair value measurement at end of<br>reporting period using: |                        |                        |
|----------------|----------------------------------|---|------------------------|------------------------|
|                |                                  | Level 1 <sup>(a)</sup>                                      | Level 2 <sup>(a)</sup> | Level 3 <sup>(a)</sup> |
| Nature forests | 2 749                            | n.a.  | 2 749                  | ..                     |
| Livestock      | 1 285                            | n.a.  | 1 285                  | ..                     |

| 20X1           |    |    |    |    |
|----------------|----|----|----|----|
| 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 20X2. There are no comparative disclosures because the Department did not hold any biological assets at 30 June 20X1. [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, 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 marketplace and vary depending on the weight and condition of the animal.

### 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. [AASB 13.93]

## 8. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

- 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
- market prices for similar assets with adjustment to reflect differences
- 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. [AASB 13.93]

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. [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. [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 and 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. [AASB 13.93]

Cost may sometimes approximate fair value, particularly when:

- little biological transformation has taken place since initial cost incurrence
- 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.

### 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.

|   | Carrying amount<br>as at 30 June | Fair value measurement at end of<br>reporting period using: |                        |                        |
|---|----------------------------------|---|------------------------|------------------------|
|   |                                  | Level 1 <sup>(a)</sup>                                      | Level 2 <sup>(a)</sup> | Level 3 <sup>(a)</sup> |
| (\$ thousand)   |                                  |   |                        |                        |
| <b>20X2</b>   |                                  |   |                        |                        |
| Freehold land held for sale <sup>(b)</sup>            | 753                              | n.a.  | 753                    | ..                     |
| Investments and other financial assets <sup>(c)</sup> | 521                              | n.a.  | 521                    | ..                     |
| <b>20X1</b>   |                                  |   |                        |                        |
| Freehold land held for sale <sup>(b)</sup>            | 1 469                            | n.a.  | 1 469                  | ..                     |
| Investments and other financial assets <sup>(c)</sup> | 1 575                            | n.a.  | 1 575                  | ..                     |

Notes:

(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 financial assets measured at fair value are financial instruments as defined in AASB 9 and are, 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 financial assets 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 5.1.4 and Note 8.3.1 for illustration on reconciliation of recurring Level 3 assets.

## 9 OTHER DISCLOSURES

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### 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 <sup>(a)</sup>

Ex gratia expenses are the voluntary payments of money or other non-monetary benefit (e.g. a write off) that are 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) |           |
|--|---------------|-----------|
|  | 20X2          | 20X1      |
| Forgiveness or waiver of debt <sup>(b)</sup>   | 100           | ..        |
| Compensation for economic loss <sup>(c)</sup>  | 56            | ..        |
| Property damage payments <sup>(d)</sup>        | ..            | 16        |
| <b>FRD 11</b>                                  |               |           |
| <b>Total ex gratia expenses <sup>(e)</sup></b> | <b>156</b>    | <b>16</b> |

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 3.3 Other operating expenses.

### Guidance – Ex gratia expenses [FRD 11; FMA s3]

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:

- Public statutory authority
- A State business corporation or State body within the meaning of the *State Owned Enterprises Act 1992*
- Court Services Victoria
- A body, office or trust body that is:
  - established by or under an Act or enactment
  - established by the Governor in Council or a Minister
  - 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 11 *Disclosure of ex-gratia expenses*, it is important to understand the underlying purpose of the write off.

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 11.

## 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
- 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 |  | 20X2           | 20X1           |
| AASB 101.97      | <b>Net gain/(loss) on non-financial assets</b>   |                |                |
| AASB 136.126 (a) | Impairment of property plant and equipment (including intangible assets)   | (2 010)        | 585            |
|                  | 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/(loss) on disposal of property plant and equipment  | (844)          | 549            |
| AASB 101.98 (d)  | Net gain/(loss) on disposal of investment properties   | (120)          | 240            |
|                  | <b>Total net gain/(loss) on non-financial assets</b>   | <b>(5 161)</b> | <b>1 805</b>   |
|                  | <b>Net gain/(loss) on financial instruments</b>  |                |                |
|                  | Impairment of: <sup>(a)</sup>  |                |                |
|                  | Loans and receivables  | ..             | (341)          |
|                  | Financial assets at amortised cost   | (485)          | ..             |
| AASB 7.20 (a)    | 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 through net result                    | (2 105)        | 400            |
|                  | Net (gain)/loss arising from revaluation of financial liabilities at fair value through net result – market risk | 20             | ..             |
|                  | Interest on government advances  | (4 155)        | (4 240)        |
|                  | <b>Total net gain/(loss) on financial instruments</b>  | <b>(7 121)</b> | <b>(3 971)</b> |
|                  | <b>Share of net profits/(losses) of associates and joint entities, excluding dividends</b>                       |                |                |
|                  | Share of net profits/(losses) of associates, excluding dividends   | 1 055          | 652            |
|                  | Share of net profits/(losses) of joint entities, excluding dividends   | 231            | 745            |
|                  | <b>Total share of net profits/(losses) of associates and joint entities, excluding dividends</b>                 | <b>1 286</b>   | <b>1 397</b>   |
|                  | <b>Other gains/(losses) from other economic flows</b>  |                |                |
|                  | Net gain/(loss) arising from revaluation of long service liability <sup>(b)</sup>                                | (2 846)        | (2 009)        |
| AASB 137.60      | Unwinding of other provision   | (49)           | (39)           |
|                  | <b>Total other gains/(losses) from other economic flows</b>  | <b>(2 895)</b> | <b>(2 048)</b> |

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.]

### 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) in the Model for definitions on 'transactions' and 'other economic flows.'

### 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 20X2, 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 20X2, being the date control of the officer passed to the acquirer.

#### 9.3.2 Plan to dispose of Gene Services business

On 30 November 20X1, 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 20X2.

#### 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>  | 20X2            | 20X1            |
| AASB 5.33(b) and 34  |                 |                 |
| <b>Income from transactions</b>  |                 |                 |
| 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             |
| <b>Total income from transactions</b>  | <b>12 942</b>   | <b>18 300</b>   |
| <b>Total expenses from transactions</b>  | <b>(10 269)</b> | <b>(12 970)</b> |
| <b>Net result from transactions (net operating balance)</b>                            | <b>2 673</b>    | <b>5 330</b>    |
| <b>Other economic flows included in net result</b>                                     |                 |                 |
| 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)         | (940)           |
| <b>Total other economic flows included in net result</b>                               | <b>(1 443)</b>  | <b>(1 474)</b>  |
| <b>Net result from discontinued operations</b>   | <b>1 230</b>    | <b>3 856</b>    |

### 9.3.4 Net cash flows from discontinued operations [AASB 5.33(c)]

(\$ thousand)

|  | 20X2         | 20X1         |
|--|--------------|--------------|
| 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           | (326)        | (116)        |
| <b>Net cash flows from discontinued operations</b> | <b>(376)</b> | <b>4 055</b> |

### 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)

|  | 20X2           | 20X1           |
|--|----------------|----------------|
| Cash and deposits                                    | 5 254          | 1 283          |
| Receivables  | 2 797          | 4 736          |
| Investments and other financial assets               | 521            | 5 737          |
| Inventories  | 2 827          | 5 937          |
| Property, plant and equipment                        | 3 201          | 7 194          |
| <b>Total assets classified as held for sale</b>      | <b>14 600</b>  | <b>24 887</b>  |
| Payables   | (378)          | (2 713)        |
| Borrowings   | (860)          | (2 567)        |
| Provisions   | (3 149)        | (3 680)        |
| Other liabilities                                    | (51)           | (20)           |
| <b>Total liabilities classified as held for sale</b> | <b>(4 438)</b> | <b>(8 980)</b> |
| <b>Net assets held for sale</b>                      | <b>10 162</b>  | <b>17 376</b>  |

### 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)

|   | 20X2         | 20X1          |
|---|--------------|---------------|
| <i>Non-Current assets:</i>  |              |               |
| Freehold land held for sale <sup>(a)</sup>  | 753          | 1 469         |
| <i>Disposal group assets:</i>   |              |               |
| Assets of discontinued operations (Note 9.3.5)  | 6 028        | 13 131        |
| <b>Total non-financial physical assets and disposal group classified as held for sale</b> | <b>6 781</b> | <b>14 600</b> |

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
- 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 20X2. 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.

### 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 either: [\[AASB 5.5B\]](#)

- specific disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations
- 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 either:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
- 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. [\[AASB 5 Appendix A\]](#)

### 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
- 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)]

### **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.

### **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 disclosure above reflects this circumstance, as the financial assets measured at fair value are financial instruments as defined in AASB 9 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 financial assets 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.

## 9.4 Reserves

(\$ thousand)

| Source reference |  | 20X2          | 20X1         |
|------------------|--|---------------|--------------|
| AASB 101.106 (d) | <b>Physical asset revaluation surplus <sup>(a)</sup></b>   |               |              |
|                  | Balance at beginning of financial year   | 5 759         | 4 626        |
|                  | 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)       | ..           |
|                  | <b>Balance at end of financial year</b>  | <b>9 339</b>  | <b>5 759</b> |
| AASB 101.106 (d) | <b>Financial assets through other comprehensive income revaluation surplus <sup>(b)</sup></b>  |               |              |
|                  | Balance at beginning of financial year   | 1 723         | 1 723        |
|                  | Opening balance adjustment on adoption of AASB 9   | ..            | ..           |
| AASB 9.5.7.1(d)  | Valuation gain/(loss) recognised   | 100           | ..           |
| AASB 9.5.7.1(d)  | 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            | ..           |
|                  | Disposal or transferred out  | (323)         | ..           |
|                  | <b>Balance at end of financial year</b>  | <b>1 550</b>  | <b>1 723</b> |
| AASB 101.106 (d) | <b>Own credit risk revaluation reserve for financial liabilities through other comprehensive income revaluation surplus <sup>(b)</sup></b> |               |              |
|                  | Balance at beginning of financial year   | ..            | ..           |
| AASB 9.5.7.1(d)  | Valuation (gain)/loss recognised   | 30            | ..           |
| AASB 9.5.7.1(d)  | 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  | ..            | ..           |
|                  | Disposal or transferred out  | ..            | ..           |
|                  | <b>Balance at end of financial year</b>  | <b>30</b>     | <b>..</b>    |
|                  | <b>Net changes in reserves</b>   | <b>10 919</b> | <b>7 482</b> |

## 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 that 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 that 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.

## Revaluation surplus

In addition to physical asset revaluation surplus, the Model presents separately on consolidated balance sheet different types of revaluation surplus. An entity can group together the revaluation surplus associated with financial assets and liabilities, present on balance sheet as a single line item and disclose them separately in the Reserve Note. Available-for-sale revaluation surplus includes cumulative fair value changes of available for sale financial asset recognised under AASB 139 in other comprehensive income. As part of the transition adjustment, opening balance of this revaluation reserve is reversed in full.

Financial assets through other comprehensive income revaluation surplus includes cumulative fair value changes of equity investments that are designated at initial recognition as fair value through other comprehensive income in accordance with AASB 9. As part of the transition adjustment, the existing balance of cumulative fair value changes related to equity investments reclassified from available for sale to fair value through other comprehensive income shall be transferred to fair-value-through-other-comprehensive-income revaluation surplus.

AASB 9 introduces a new category of revaluation surplus to record the cumulative fair value changes of financial liabilities designated as fair value through net result that is attributable to its own credit risk.

## Transferred financial assets

An entity is regarded as transferring a financial asset if, and only if, it either:

- (a) transfers the contractual rights to receive the cash flows of the financial asset (i.e. a sale of a financial asset that grants the transferee a legal claim on the cash flows)
- (b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in AASB9.3.2.5 (i.e. an arrangement whereby an entity that is a trust issues to investors beneficiary interests in the underlying financial assets it originates, owns and provides servicing of those assets). [AASB 9.3.2.4]

When an entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity must derecognise the financial asset in its entirety. [AASB 9.3.2.6(a)] For example:

- a sale of a financial asset together with a put or call option that is deeply out of the money
- a loan sub-participation arrangement whereby fully proportionate share of the cash flows are transferred and the arrangement meets the transfer conditions in (b) above.

Where the transferred financial assets are derecognised in their entirety, the required disclosures include:

- the carrying amount of the assets and liabilities recognised
- fair value of the assets and liabilities that represent continuing involvement
- maximum exposure to loss from the continuing involvement
- maturity analysis of the undiscounted cash flows to repurchase the derecognised financial assets [AASB 7.42E]
- any gain or loss recognised at the date of transfer of the assets
- income or expenses recognise from the entity's continuing involvement in the derecognised financial assets, as well as details of uneven distribution of proceed from transfer activity throughout the reporting period. [AASB 7.42G]

If the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity continues to recognise the financial asset [AASB 9.3.2.6(b)]. For example:

- a sale of a financial asset with a deeply in the money put or call option
- a sale and repurchase transaction where the repurchase price is a fixed price or the sale price plus a lender's return
- a sale of short-term receivables in which the entity guarantees to compensate the transferee for credit losses that are likely to occur. [AASB 9.3.2.7]

Where the transferred financial assets are not derecognised in their entirety, the required disclosures include:

- description of the nature of the transferred assets
- nature of risk and rewards
- description of the nature and quantitative disclosure depicting relationship between transferred financial assets and the associated liabilities. [AASB 7.42D]

## 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 *Financial Management Act 1994*:

- Gene Sciences Victoria
- The Office of the Commissioner of New Technology
- 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 <sup>(a)</sup> |      | Other section 53(1)(b) entities <sup>(b)</sup> |        | Eliminations and adjustments |      | DoT consolidated group |         |
|                                | 20X2                           | 20X1    | 20X2  | 20X1 | 20X2   | 20X1   | 20X2                         | 20X1 | 20X2                   | 20X1    |
| 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 <sup>(c)</sup>    | 203 179                        | 202 730 | ..  | ..   | 35 855   | 25 056 | ..                           | ..   | 239 034                | 227 786 |
| 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.

## 9.6 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 101.54(b)]

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 20X1 financial year, as shown in the tables below.

### 9.6.1 Investment property not recognised

During the 20X0-X1 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 20X1 by \$2 500 000. The error also had the effect of understating investment properties and accumulated surplus as at 30 June 20X1 by \$2 500 000.

### 9.6.2 Error in not consolidating a controlled entity

Innovation Victoria was established on 1 July 2019 as a new entity of the Department of Technology under the *Innovation Victoria Act 2019*. 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 20X0-X1 reporting period.

## Impact of correction of an error on the consolidated operating statement

(\$ million)

|   | <i>For the period ended<br/>30 June 20X2</i> | <i>For the period ended<br/>30 June 20X1<br/>(restated)</i> | <i>Consolidation of<br/>Innovation Victoria<br/>(100% owned)</i> | <i>For the period ended<br/>30 June 20X1 as<br/>previously presented</i> |
|---|--|---|--|--|
| 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   |
| <b>Total income from transactions</b>   | <b>107 474</b>                               | <b>86 260</b>   | <b>..</b>  | <b>86 260</b>  |
| 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)   |
| <b>Total expenses from transactions</b>   | <b>(81 252)</b>                              | <b>(77 421)</b>   | <b>3 900</b>   | <b>(81 321)</b>  |
| <b>Net result from transactions (net operating balance)</b>                         | <b>26 222</b>                                | <b>8 839</b>  | <b>..</b>  | <b>4 939</b>   |
| 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)  |
| <b>Total other economic flows included in net result</b>                            | <b>(12 661)</b>                              | <b>(2 816)</b>  | <b>(3 900)</b>   | <b>1 084</b>   |
| <b>Net result from continuing operations</b>  | <b>13 561</b>                                | <b>6 023</b>  | <b>..</b>  | <b>6 023</b>   |
| Net result from discontinued operations   | 1 229  | 3 856   | ..   | 3 856  |
| <b>Net result</b>   | <b>14 790</b>                                | <b>9 879</b>  | <b>..</b>  | <b>9 879</b>   |
| <b>Total other economic flows – other comprehensive income</b>                      | <b>6 413</b>                                 | <b>4 101</b>  | <b>..</b>  | <b>4 101</b>   |
| <b>Comprehensive result</b>   | <b>21 203</b>                                | <b>13 980</b>   | <b>..</b>  | <b>13 980</b>  |

## Impact of correction of an error on the consolidated balance sheet

(\$ million)

| <i>Assets</i>                                 | <i>As at<br/>30 June 20X2</i> | <i>As at 30 June 20X1<br/>(restated)</i> | <i>Consolidation of<br/>Innovation Victoria<br/>(100% owned)</i> | <i>As at 30 June 20X1<br/>(as previously reported)</i> |
|---|-------------------------------|--|--|--|
| 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   |
| <b>Total financial assets</b>                 | <b>123 308</b>                | <b>103 792</b>                           | <b>4 800</b>   | <b>98 992</b>  |
| 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   |
| <b>Total non-financial assets</b>             | <b>117 926</b>                | <b>123 995</b>                           | <b>5 200</b>   | <b>118 795</b>   |
| <b>Total assets</b>                           | <b>241 234</b>                | <b>227 787</b>                           | <b>10 000</b>  | <b>217 787</b>   |
| <b>Liabilities</b>                            |                               |  |  |  |
| Payables                                      | 17 591                        | 16 704                                   | 10 000   | 6 704  |
| Other liabilities                             | 80 010                        | 96 122                                   | ..   | 96 122   |
| <b>Total liabilities</b>                      | <b>97 601</b>                 | <b>112 826</b>                           | <b>10 000</b>  | <b>102 826</b>   |
| <b>Equity</b>                                 |                               |  |  |  |
| 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   |
| <b>Net worth</b>                              | <b>143 631</b>                | <b>114 960</b>                           | <b>..</b>  | <b>114 960</b>   |

## Impact of correction of an error on the consolidated cash flow statement (\$ million)

| <i>Line item</i>  | <i>As at 30 June<br/>20X2</i> | <i>As at 30 June<br/>20X1<br/>(restated)</i> | <i>Consolidation<br/>of Innovation<br/>Victoria<br/>(100%<br/>owned)</i> | <i>As at<br/>30 June<br/>20X1 (as<br/>previously<br/>reported)</i> |
|---|-------------------------------|--|--|--|
| 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  |
| <b>Total receipts</b>                                       | <b>87 843</b>                 | <b>94 987</b>                                | <b>(1 900)</b>   | <b>96 887</b>  |
| Payments of grants and other transfers                      | (36 227)                      | (47 011)                                     | ..   | (47 011)   |
| Payments to suppliers and employees                         | (22 979)                      | (19 167)                                     | (1 500)  | (19 792)   |
| GST paid to the ATO   | (3 055)                       | (3 497)                                      | ..   | (3 497)  |
| Interest and other costs of finance paid                    | (2 427)                       | (2 507)                                      | ..   | (2 507)  |
| Other payments  | (6 382)                       | (3 200)                                      | ..   | (3 200)  |
| <b>Total payments</b>                                       | <b>(71 070)</b>               | <b>(75 382)</b>                              | <b>14 500</b>  | <b>(76 882)</b>  |
| <b>Net cash flows from operating activities</b>             | <b>16 773</b>                 | <b>19 605</b>                                | <b>(3 400)</b>   | <b>20 005</b>  |
| <b>Net cash flows from/(used in) investing activities</b>   | <b>(25 403)</b>               | <b>(23 124)</b>                              | <b>..</b>  | <b>(23 124)</b>  |
| <b>Net cash flows from/(used in) financing activities</b>   | <b>30 607</b>                 | <b>13 711</b>                                | <b>..</b>  | <b>13 711</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>20 411</b>                 | <b>9 241</b>                                 | <b>(3 400)</b>   | <b>12 641</b>  |
| Cash and cash equivalents at beginning of financial year    | 45 446                        | 35 094                                       | 13 000   | 22 094   |
| Effect of exchange rate on cash held in foreign currency    | ( 471)                        | 160  | (8 800)  | 8 960  |
| <b>Cash and cash equivalents at end of financial year</b>   | <b>64 434</b>                 | <b>44 494</b>                                | <b>800</b>   | <b>43 694</b>  |

## 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:

- restating the comparative amounts for the prior period(s) presented in which the error occurred
- 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:

- 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). [AASB 108.44]
- 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 (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
- 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.

### **Voluntary changes in accounting policies [AASB 108.14]**

An entity shall change an accounting policy only if the change:

- is required by an AAS
- 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]

- the nature of the change in accounting policy
- the reasons why applying the new accounting policy provides reliable and more relevant information
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  - for each financial statement's line item affected
  - if AASB 133 applies, for basic and diluted earnings per share.
- the amount of the adjustment relating to periods before those presented, to the extent practicable
- 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:

- residual values
- the estimated costs of dismantling, removing or restoring items of property, plant and equipment
- useful lives
- 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 either:

- the period of the change if the change affects that period only
- 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.

**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:

- residual values
- the estimated costs of dismantling, removing or restoring items of property, plant and equipment
- useful lives
- 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)**

| <i>Year ending 30 June</i> | <i>xx</i> |
|----------------------------|-----------|
| 20X1                       | xx        |
| 20X2                       | xx        |
| 20X3                       | 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 20X1 to 30 June 20X2 |
| Minister for Biotechnology | The Hon. Laura Toddington MP | 1 July 20X1 to 30 June 20X2 |
| Secretary                  | Ms Jane Smith                | 1 July 20X1 to 30 June 20X2 |

### 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 (20X1: \$450 000–459 000).

### Guidance – Responsible persons

The disclosure requirements of FRD 21 *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 21.

## 9.8 Remuneration of executives

The number of senior executive service members, 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. [\[Delete if not applicable\]](#).

Several factors affected total remuneration payable to executives over the year. A number of employment contracts were completed and renegotiated and a number of senior executive service members retired, resigned or were retrenched in the past year. This has had a significant impact on remuneration figures for the termination benefits category. [FRD 21 Revised]

(\$ thousand)

| Remuneration of the senior executive service<br>(including Key Management Personnel disclosed in Note 9.9) <sup>(a)</sup> | Total remuneration |              |
|---|--------------------|--------------|
|   | 20X2               | 20X1         |
| 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.         |
| <b>Total remuneration<sup>(a)</sup></b>   | <b>8 915</b>       | <b>7 701</b> |
| <b>Total number of executives</b>   | <b>79</b>          | <b>77</b>    |
| <b>Total annualised employee equivalents<sup>(b)</sup></b>  | <b>76.2</b>        | <b>75.8</b>  |

Notes:

- (a) The total number of senior executive service members 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 [FRD 21 Revised] [REVISED]

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 'Guidelines for reporting remuneration in accordance with AASB 124' document [available on the DTF website](#).

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 the senior executive service. AEE is defined and explained in FRD 21 in the financial statements. It is calculated by dividing the total number of ordinary working hours that an employee worked and was paid over the reporting period by the standard total number of full-time working hours per annum.

*Example 1*

A full-time Employee A worked 38 hours (5 days) per week since 1 July for the whole reporting period (defined as the relevant financial year)

$$\text{AEE} = (38 \text{ hours} \times 52 \text{ weeks}) / 1,976 \text{ hours} = 1.0$$

*Example 2*

A part-time Employee B worked 30 hours (4 days) per week since 1 July for the whole reporting period.

$$\text{AEE} = (30 \text{ hours} \times 52 \text{ weeks}) / 1,976 \text{ hours} = 0.8$$

*Example 3*

A full-time Employee C worked 38 hours (5 days) per week since 1 January (only part of the reporting period).

$$\text{AEE} = (38 \text{ hours} \times 26 \text{ weeks}) / 1,976 \text{ hours} = 0.5$$

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 senior executive service remuneration does not relate to any VPS 6 or 7 staff acting on a temporary basis in executive roles, while the substantive senior executive service member is on paid leave or secondment.

Where a member of the senior executive service from the same department backfills for another executive while on paid leave or secondment in that same department, then both senior executive service members are included in the disclosure. **[FRD 15 Revised]**

For further disclosure guidance in relation to senior executive service, please refer to FRD 21.

### **Reconciliation with 'executive 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 senior executive service members reported in the executive data disclosure in the Report of Operations (i.e. Table 9: *Reconciliation of executive numbers* on page 44 of the Model Report of Operations (Part one)).

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## 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
- 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
- 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 (20X1: \$63.7 million) and \$26.6 million (20X1: \$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 transaction
  - for other transactions that are collectively, but not individually significant, a qualitative or quantitative indication of their extent.]

**Key management personnel (KMP)** of the Department includes the Portfolio Ministers, the Hon. John Bristol MP and the Hon. Laura Toddingham 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
- Chief Finance and Accounting Officer, Robert Mclvor.

**KMP** of the agencies consolidated pursuant to section 53(1)(b) of the FMA into the Department's financial statements include:

| <i>Entity</i>                                | <i>Position title</i>   |
|--|-------------------------|
| 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 |

## 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 State's Annual Financial Report.

(\$ thousand)

| Compensation of KMPs                        | Department of Technology |              | Section 53 / Administrative Offices <sup>(a)</sup> |              |
|---|--------------------------|--------------|--|--------------|
|   | 20X2                     | 20X1         | 20X2   | 20X1         |
| Short-term employee benefits <sup>(b)</sup> | 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.         |
| <b>Total<sup>(c)</sup></b>                  | <b>4 287</b>             | <b>3 845</b> | <b>1 893</b>                                       | <b>1 688</b> |

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 9.9).
- (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
- 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 KMP 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 *Declaration certificate for executives – The certificate for declaration of related party transactions in compliance with AASB 124* on the DTF website 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 *AASB 124 Related Party Disclosures – entity management checklist* [on the DTF website](#) 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
- 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)
- 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 21, 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 either:

- section 53(1)(a) where the entity's financial statements are included as a separate attachment to the department's own financial reports
- 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.

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) |              |
|------------------|--|---------------|--------------|
| Source reference |  | 20X2          | 20X1         |
| AASB 1054.10     | <b>Victorian Auditor-General's Office</b>      |               |              |
| AASB 1054.10 (a) | Audit or review of the financial statements    | 1 014         | 1 177        |
| AASB 1054.10 (b) | <b>Other non-audit services <sup>(a)</sup></b> | ..            | ..           |
|                  | <b>Total remuneration of auditors</b>          | <b>1 014</b>  | <b>1 177</b> |

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:

- the audit or review of the financial statements
- 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
- 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:

- the nature of the event
- 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:
  - impairment of assets damaged or destroyed
  - increases in grants to assist citizens
  - extra costs by State agencies managing emergencies
  - 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 major business combination after the end of the reporting period or disposing of a major subsidiary
- announcing a plan to discontinue an operation
- major purchases of assets, classifications of assets as held for sale, other disposals of assets, or expropriation of major assets by government
- 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
- announcing, or commencing the implementation of, a major restructure
- abnormally large changes after the reporting period in asset prices or foreign exchange rates
- entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees
- commencing major litigation arising solely out of events that occurred after the reporting period.

## 9.12 Other accounting policies

### Contributions by owners [FRD 119, 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.’

## 9.13 Australian Accounting Standards issued that are not yet effective

**[REVISED]** [AASB 108.30-31]

Certain new and revised accounting standards have been issued but are not effective for the 20X1-X2 reporting period. These accounting standards have not been applied to the Model Financial Statements.

### **AASB 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities**

AASB 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities amended AASB 13 by adding Appendix F Australian implementation guidance for not-for-profit public sector entities. Appendix F explains and illustrates the application of the principles in AASB 13 on developing unobservable inputs and the application of the cost approach. These clarifications are mandatorily applicable annual reporting periods beginning on or after 1 January 2024. FRD 103 permits Victorian public sector entities to apply Appendix F of AASB 13 in their next scheduled formal asset revaluation or interim revaluation (whichever is earlier).

In accordance with FRD 103, the Department will apply Appendix F of AASB 13 in its next scheduled formal revaluation in 20X5 or interim revaluation process (whichever is earlier). [Entities to tailor as appropriate depending on their next scheduled formal revaluation including disclosing whether they expect any material impacts to arise from the amendment or still in the process of assessing the potential impact of this amendment].

### **AASB 17 Insurance Contracts, AASB 2022-8 Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments and AASB 2022-9 Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector**

AASB 17 replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* for not-for-profit public sector entities for annual reporting periods beginning on or after 1 July 2026.

AASB 2022-9 amends AASB 17 to make public sector-related modifications (e.g. it specifies the pre-requisites, indicators and other considerations in identifying arrangements that fall within the scope of AASB 17 in a public sector context). This Standard applies for annual reporting periods beginning on or after 1 July 2026.

AASB 2022-8 makes consequential amendments to other Australian Accounting Standards so that public sector entities are permitted to continue to apply AASB 4 and AASB 1023 to annual periods before 1 July 2026. This Standard applies for annual reporting periods beginning on or after 1 January 2023.

### **AASB 2024-2 Amendments to Australian Accounting Standards – Classification and Measurement of Financial Instruments**

AASB 2024-2 amends AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments*.

AASB 2024-2 amends requirements relating to:

- settling financial liabilities using an electronic payment system
- assessing contractual cash flow characteristics of financial assets with environmental, social and corporate governance (ESG) and similar features
- disclosure requirements for investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features that do not relate directly to basic lending risks and costs.

This amendment applies to annual reporting periods beginning on or after 1 January 2026.

### **AASB 18 Presentation and Disclosure of Financial Statements**

AASB 18 replaces AASB 101 *Presentation of Financial Statements* to improve how entities communicate in their financial statements, with a particular focus on information about financial performance in the statement of profit or loss.

The key presentation and disclosure requirements established by AASB 18 is the presentation of newly defined subtotals in the statement of profit or loss.

AASB 18 applies to annual reporting periods beginning on or after 1 January 2027 for for-profit entities and applies to annual reporting periods beginning on or after 1 January 2028 for not-for-profit entities. The delayed date of one year will allow the AASB to consult with stakeholders and consider potential modifications for application by not-for-profit public sector entities.

The Department is currently in the process of assessing the potential impact of these standards and amendments.

A number of other standards and amendments have also been issued that apply to future reporting periods, however they are not expected to have any significant impact on the financial statements in the period of initial application.

## Guidance – New Accounting Standards and interpretations

### AAS issued but not yet effective [AASB 108.30]

Certain new Australian Accounting Standards (AAS) have been published which are not mandatory for the 30 June 20X2 reporting period. DTF assesses the impact of all these new standards and advises the department of their applicability and early adoption where applicable.

The latest listing on impacts of AASs that are issued but not yet effective will be issued as Appendix 2 of FRD 120. 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.

When an entity has not applied a new AAS that has been issued but is not yet effective, the entity shall disclose this fact, as well as 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:

- the title of the new AAS
- the nature of the impending change or changes in accounting policy
- the date by which application of the standard is required
- the date at which it plans to apply the standard initially
- and either:
  - a discussion of the impact that initial application of the standard is expected to have on the entity's financial statements
  - 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:

- experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred)
- 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, lease liabilities, service concession arrangements 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.

**Finance lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

**Financial asset** is any asset that is either:

- cash
- an equity instrument of another entity
  - 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.
- A financial asset can also be a contract that will or may be settled in the entity's own equity instruments and is either:
  - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments
  - 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 either:

- 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
- a contract that will or may be settled in the entity's own equity instruments and is either:
  - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments
  - 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 balance sheet as at the end of the period
- a comprehensive operating statement for the period
- a statement of changes in equity for the period
- a cash flow statement for the period
- notes, comprising a summary of significant accounting policies and other explanatory information
- comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*
- 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.

**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 lease repayments, service concession financial liabilities 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 conveyed in a contract, or part of a contract, the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

**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 to '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 marketplace 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 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.

**Service concession arrangement** is a contract effective during the reporting period between a grantor and an operator in which:

- the operator has the right of access to the service concession asset (or assets) to provide public services on behalf of the grantor for a specified period of time
- the operator is responsible for at least some of the management of the public services provided through the asset and does not act merely as an agent on behalf of the grantor
- the operator is compensated for its services over the period of the service concession arrangement.

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
- 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.

## STYLE CONVENTIONS

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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 *20X1-X2 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.