Appendices

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Local Government Act 1993 (NSW) – Investment order
(Relating to investments by councils)

LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER

(Relating to investments by councils)

I, the Hon. Barbara Perry MP, Minister for Local Government, in pursuance of section 625(2) of the *Local Government Act 1993* and with the approval of the Treasurer, do, by this my Order, notify for the purposes of section 625 of that Act that a council or county council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

(a) any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;

(b) any debentures or securities issued by a council (within the meaning of the *Local Government Act* 1993 (NSW));

(c) interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act* 1959 (Cwth)), but excluding subordinated debt obligations;

(d) any bill of exchange which has a maturity date of not more than 200 days; and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority;

(e) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation;

All investment instruments (excluding short term discount instruments) referred to above include both principal and investment income.

Transitional Arrangements

(i) Subject to paragraph (ii) nothing in this Order affects any investment made before the date of this Order which was made in compliance with the previous Ministerial Orders, and such investments are taken to be in compliance with this Order.

(ii) Paragraph (i) only applies to those investments made before the date of this Order and does not apply to any restructuring or switching of investments or any re-investment of proceeds received on disposal or maturity of such investments, which for the avoidance of doubt must comply with this Order.

Key Considerations

An investment is not in a form of investment notified by this order unless it also complies with an investment policy of council adopted by a resolution of council.

All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

The General Manager, or any other staff member, with delegated authority by a council to invest funds on behalf of a council must do so in accordance with the council's adopted investment policy.

Councils have a fiduciary responsibility when investing. Councils should exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

When exercising the power of investment councils should consider, but not be limited by, the risk of capital or income loss or depreciation, the likely income return and the timing of income return, the length of the term of the proposed investment, the liquidity and marketability of the proposed investment, the likelihood of inflation affecting the value of the proposed investment and the costs (including commissions, fees, charges and duties payable) of making the proposed investment.

Dated this 12th day of January 2011

Hon BARBARA PERRY MP
Minister for Local Government

A. OLG Investment policy

Council/JOs must maintain an investment policy that complies with the Act, the LGGR and the Ministerial Local Government Investment Order, and ensure that it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing council funds.

A council/JO must maintain a separate record of money it has invested under Section 625 of the Act. The record (investment register) must specify:

a) the source and the amount of money invested
b) particulars of the security or form of investment in which the money was invested, and
c) if appropriate, the rate of interest to be paid, and the amount of money that the council has earned, in respect of the money invested.

Internal restrictions shall include those assets the uses of which are only restricted by a resolution of council/board.

Appendix B
Local Government Act 1993 (NSW) – Borrowing order
(Related to borrowings by Council)

Local Government Act 1993 – Borrowing Order
(Related to borrowings by Council)

I, BARBARA PERRY MP, Minister for Local Government, in pursuance of section 624 of the Local Government Act 1993, hereby impose restrictions on borrowings by a council as follows:

A council shall not borrow from any source outside the Commonwealth of Australia nor in any other currency other than Australian currency.

Transitional Arrangements
Nothing in this Order affects any borrowings made before the date of this Order, which was made in compliance with the previous Ministerial Order dated 27 September 1993, and such borrowings are taken to be in compliance with this Order.

Dated this 13th day of May 2009

BARBARA PERRY MP
Minister for Local Government

Appendix C
Public notice – Presentation of financial statements
Section (418) LGA

Section 418(3) of the Act provides that the public notice must include:

(a) a statement that the business of the meeting will include the presentation of the audited financial statements and the auditor's report, and

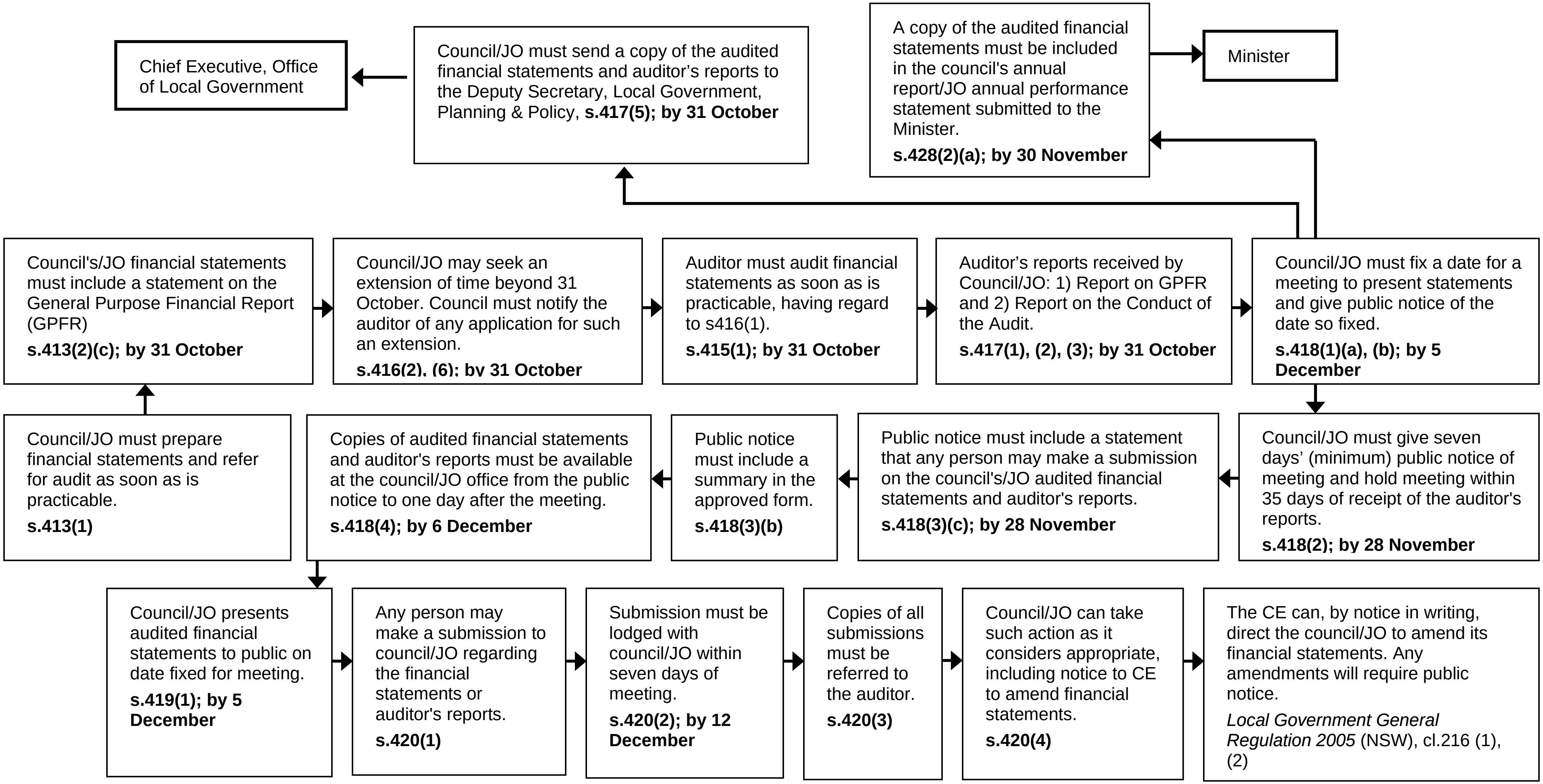
(b) a summary, in the approved form, of the financial statements, and

(c) a statement to the effect that any person may, in accordance with Section 420, make submissions (within the time provided by that section and specified in the statement) to the council/JO with respect to the council/JO's audited financial statements or with respect to the auditor's reports.

The approved form (as prescribed by the Deputy Secretary. Local Government, Planning and Policy) to be provided pursuant to Section 418(3)(b) is:

	Current year $'000	Previous year $'000
Income Statement		
Total income from continuing operations		
Total expenses from continuing operations		
Operating result from continuing operations		
Net operating result for the year		
Net operating result before grants and contributions provided for capital purposes		
Statement of Financial Position		
Total current assets		
Total current liabilities		
Total non-current assets		
Total non-current liabilities		
Total equity		
Other financial information		
Unrestricted current ratio		
Operating performance ratio		
Building infrastructure renewal ratio		
Debt service cover ratio		
Rates and annual charges outstanding percentage		

Appendix D
Graphical illustration of legislative requirements



Appendix E
OLG Accounting practice and policy guidance

A. Statement of developer contributions

1. General principles

Section 7.11 of the *Environmental Planning and Assessment Act 1979* (NSW) (the EP&A Act) and Section 64 of the *Local Government Act 1993* (NSW) (the Act) provide NSW local governments with a formal legal framework for levying developers for the provision of infrastructure, services and amenities – known as developer contributions.

There are three general principles in applying the contributions:

1. A contribution must be for, or relate to, a planning purpose.
2. A contribution must fairly and reasonably relate to the subject development.
3. The contribution must be such that a reasonable planning authority, duly applying its statutory duties, could have properly imposed it.

Council may require:

- a dedication of land
- a monetary contribution
- material public benefit (works in-kind), or
- a combination of some or all of the above.

One of the fundamental responsibilities of any council in imposing these contributions is to ensure that the contributions levied are reasonable. That is, the works and facilities to be provided must be as a direct consequence of the development on which the contributions are levied. In keeping with this responsibility, contributions levied on developments are limited to providing amenities and services to the minimum level necessary to sustain an acceptable form of urban development.

Councils can also enter into planning agreements with developers under section 7.4 of the EPA Act. These are voluntary agreements where the developer may dedicate land, pay monetary contributions, or provide a material public benefit (or a combination of these) which the council must then apply towards a public purpose.

2. Accounting

Councils must maintain a contributions register.

1. A council that imposes Section 7.11 conditions or section 7.12 conditions on development consents must maintain a contributions register.
2. The council must record the following details in the register:
    a) particulars sufficient to identify each development consent for which any such condition has been imposed
    b) the nature and extent of the section 7.11 contribution or section 7.12 levy required by any such condition for each public amenity or service
    c) the contributions plan for which any such condition was imposed
    d) the date or dates on which any section 7.11 contribution or section 7.12 levy required by any such condition was received, and its nature and extent.

Accounting for contributions and levies

1. A council must maintain accounting records that allow monetary section 7.11 contributions, section 7.12 levies, and any additional amounts earned from their investment to be distinguished from all other money held by the council.
2. The accounting records for a contributions plan must indicate the following:
    a) the various kinds of public amenities or services for which expenditure is authorised by the plan
    b) the monetary section 7.11 contributions or section 7.12 levies received under the plan, by reference to the various kinds of public amenities or services for which they have been received
    c) in respect of section 7.11 contributions or section 7.12 levies paid for different purposes, the pooling or progressive application of the contributions or levies for those purposes, in accordance with any requirements of the plan or any ministerial direction under Division 6 of Part 4 of the Act
    d) the amounts spent in accordance with the plan, by reference to the various kinds of expenditures or services for which they have been spent.

B. Materials and contracts

A council must not enter into a contract for the acquisition of goods or services without an approved order, except in the following circumstances:

(a) contracts made out of petty cash advances

(b) contracts resulting from credit/procurement cards that have been approved by council and are within authorised terms and conditions

(c) recurring contracts where an order in writing has been previously made.

Appendix F
OLG Guidance for infrastructure, property, plant and equipment

The guidance below provides information to assist councils in valuing their infrastructure, property, plant and equipment (IPPE) – it is not intended to be complete nor provide discount percentages etc for certain types of assets.

OLG draws councils' attention to **TPP 14-01** which has been written by the NSW Treasury for public sector agencies. While this is not intended for nor mandatory for councils, there may be some additional guidance that is helpful for councils in relation to valuation of IPPE.

AASB 13 *Fair value measurement*
The definition of fair value under AASB 13 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 key elements of fair value under AASB 13 include the following:

- **Characteristics of the asset –** fair value measurement is for a particular asset and so a council should take into account the characteristics of the asset that market participants would take into account when pricing the asset, including the condition and location of the asset and restrictions on the sale or use of the asset.
- **The transaction and price** – fair value measurement assumes that the asset is exchanged in an orderly transaction between market participants to sell the asset at the measurement date under current market conditions
    - **Highest and best use –** fair value measurement takes into account a market participant's ability to generate economic benefits by selling the asset or using it in its highest and best use, which is a use that is physically possible, legally permissible and financially feasible.
    - **Valuation premise –** the highest and best use establishes the valuation premise used to measure fair value, i.e. that maximises the value to market participants through its use in combination with other assets/liabilities or on a stand-alone basis.
    - **Principal market –** fair value measurement assumes that the transaction to sell the asset takes place either in the principal market for the asset or in the absence of a principal market, in the most advantageous market for the asset.
    - **Market participants' perspective –** an entity must measure the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.
- **Valuation techniques –** in measuring fair value, a council must use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Valuation techniques include the market approach, income approach and cost approach.
- **Inputs to valuation technique (fair value hierarchy) –** the fair value hierarchy categorises inputs to the valuation techniques into three levels, i.e. Level 1 based on quoted prices, Level 2 based on other observable inputs and Level 3 based on unobservable inputs. The valuation technique selected must maximise the use of observable inputs and minimise the use of unobservable inputs.

Restrictions on the asset
Restrictions on the asset that are:
- council specific should not be taken into account because a potential buyer would not be subject to the restriction
- a characteristic of the asset should be taken into account because the restriction would transfer to the potential buyer with the asset.

[Illustrative example 9 to IFRS 13 provides an example of this].

Councils should consider whether restrictions on the use of an asset can be changed by council or does it require approval by another layer of government, e.g. State.

Often in the public sector, restrictions imposed on the use or disposal of an asset are a characteristic of the asset which a market participant would take into account when pricing the asset. This is because most entities are mandated by government, legal or administrative requirements to continue to provide the services that the assets assist them to provide.

Restrictions imposed by government substantially eliminate alternative uses of the asset.

Valuation techniques
Council must use valuation techniques (i.e. a single valuation technique or multiple valuation techniques) that:

- are appropriate in the circumstances
- for which sufficient data is available
- maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Cost approach – the current replacement cost of a modern equivalent asset. The concept of the cost approach is based on replacing the 'service capacity' of an asset. In determining the cost to replace the service capacity of an asset, reference should be made to a substitute of comparable utility (i.e. modern equivalent asset), adjusted for obsolescence.

Asset components

Most council assets are infrastructure assets. Almost all infrastructure assets can be separated into component parts. Parts of assets are not separate assets, however, major parts of an asset must be separately identified and depreciated where they have useful lives materially different from the asset. These assets are typically managed at the component level because each major part has a different life and/or requires different approaches to repair, maintain and renew or replace. For example, a road has significant parts that can be depreciated separately however the asset is the road.

Given this, the way the assets are separated for accounting purposes should be the same as the way they are identified within the asset management system. This allows integration between the two systems.

For roads, bridges, footpaths and stormwater drainage, the minimum components suggested are:

Asset type	Component
Roads	Road surface for sealed roads per segment Road pavement structure for sealed roads per segment Road pavement structure for unsealed roads per segment Road formation/earthworks for sealed roads per segment (where significant) Road formation/earthworks for unsealed roads per segment (where significant)
Kerbs and gutter	Kerbs and gutter each side per segment
Paths (foot and cycle)	Paths each side per segment
Road furniture	Signs, furniture
Road structures	Islands, local area traffic management, roundabouts, raised crossings, bus shelters etc.
Bridges	Components depend on the type of bridge, how the bridge is managed and renewed, and information available to value the components. Some examples of components (depending on management and renewal) are: • bridge deck/superstructure • bridge abutments/foundations • bridge substructure • bridge furniture/signs.
Stormwater drainage	Pipes between pits Pipes per pit Other structures: gross pollutant traps, detention basins etc.

Land

- All land is recognised at market value. Community land is subject to restrictions which the Valuer General will take into account when discounting the previously determined market price based on sales of similar assets.

- In cases where community land has not been valued by the Valuer General, a council may request a valuation under Section 20 of the *Valuation of Lands Act 1916* (NSW).

- Community land acquired at market price fulfils the requirement of recognition as an asset under paragraph 7 of AASB 116. Such land should be recorded initially at cost as per paragraph 15 of AASB 116.

- Typically, operational land should be valued using an independent qualified valuer in accordance with AASB13.

- Councils should also consider engaging valuers on a regional basis and should discuss this option within strategic alliances and/or regional organisations of councils.
- For all land valuations, guidance in AASB13 *Fair Value Measurement* is to be considered.

Buildings
In relation to buildings, questions have been raised regarding the level of componentisation that should be adopted as a minimum when revaluing buildings. Section 3.2 of NSW Treasury Accounting Policy (TPP 14-01) provides guidance on valuing each building type. When valuing council-owned and controlled buildings, councils should consider this guidance. While councils are not required to separately identify non-specialised and specialised buildings, the valuation process should consider their usage:

(i) **Non-specialised buildings** include commercial and general purpose buildings for which there is a secondary market.

(ii) **Specialised buildings** are buildings designed for a specific, limited purpose. Such buildings may include emergency services buildings, specialised buildings to house specialised infrastructure or plant, and some heritage properties.

(a) Building componentisation
Buildings consist of separately identifiable components that have different useful lives. While each council will own or control various buildings with different purposes, when valuing each building a council should identify the material components that have different useful lives and record and depreciate them accordingly.

The Office of Local Government has adopted a recommendation of the Local Government Technical Advisory Group that when councils are separating buildings into depreciable components, the emphasis should be on materiality, and the suggested minimum componentisation of buildings is as follows:

- the roof
- fire services such as sprinkler systems
- transportation services such as lifts and escalators
- mechanical services such as air conditioning and hot water systems
- floor coverings such as carpets, tiles etc.
- the 'structural shell' of the building.

(b) Use of independent valuer vs in-house expertise to value buildings
It should be noted that buildings and other structures do not have to be valued using an independent valuer where a council has sufficient in-house expertise to perform such a task. However, before utilising in-house resources to value buildings, each council should discuss their approach with their external auditor to confirm the information requirements that are necessary to enable the auditor to form an opinion on each asset valuation prepared. The cost of auditing each valuation prepared in-house when compared to the cost of acquiring external professional valuation resources should be considered.

Land under roads
The Office has determined that, in accordance with AASB1051 *Land Under Roads*, **a council may elect to recognise, or not to recognise, as an asset land under roads acquired before 1 July 2008**. Land under roads acquired after that date is accounted for under AASB116. It is important for councils to note that land under roads is '*land under roadways, and road reserves, including land under footpaths, nature strips and median strips'* (AASB1051; emphasis added).

Once recognised, land under roads is held at fair value under AASB 13.

In order to decide on the option that councils should take, council staff should refer to the Australian Accounting Standards, in particular AASB1051, AASB 13 and AASB116 as referred to above. Also, council staff may need to refer to the *Roads Act 1993* (NSW).

Once council has made a determination, it is possible to change their accounting policy under AASB 108 to recognise land under roads acquired before 1 July 2008 if they were not previously recognised. However, it is not possible to derecognise these assets once they have been booked.

Land under roads (LUR) acquired after 1 July 2008

Recognise all LUR acquired after 1 July 2008	1. Determine if land under roads meets the definition of an asset. 2. Determine if the asset can be reliably measured. 3. Account for land under roads acquired in accordance with the revaluation model in AASB116 *Property, Plant and Equipment.* 4. Councils should recognise land under roads acquired at its cost, where the cost represents fair value. 5. Any land under roads acquired at significant less than fair value should be measured at its fair value on initial recognition. 6. Subsequent to initial recognition, all land under roads is measured at fair value in accordance with AASB 13.

Council staff should ensure they discuss preferred actions with their auditor to make certain that they have the appropriate documentation to satisfy audit requirements in relation to valuation of land under roads, for example, documentation supporting the:

- valuation of the entity's total LUR at the average unit value of the land contained within the entity's area of control
- valuation of road segments at the average unit value of properties adjoining the relevant road segment
- the discounting factors applied to reflect the restrictions placed on land under roads (as opposed to the adjoining land which is not restricted).
- valuation on the 'englobo' basis (see below).

Englobo valuation basis – Example valuation method – illustrative only

The englobo (in some jurisdictions termed *inglobo*) basis of valuation of LUR is based on the concept of developing a 'raw land' (undeveloped) value for LUR.

The englobo approach identifies the point at which land ripe for subdivision and sold at the real point at which market and subdivision analysis can identify the relationship between the land that will be 'developed' (in the sense of being serviced by infrastructure, zoned and built on), and the land that will remain 'undeveloped' as the site of roads or other infrastructure assets.

The concept of the development of raw land and the englobo process is illustrated in Figures 1 to 3. This concept underlies the method for valuing land under roads developed for Victorian councils in 2008.

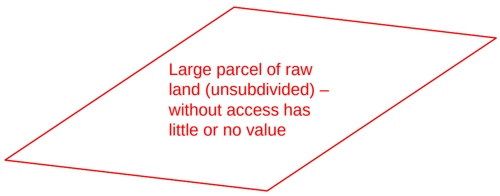


Figure 1: Raw land

In this condition, the land under road area (future road reserves) and the land (future subdivided land) will have the same value (raw land value).

When land has access to a road and infrastructure services, the road and associated infrastructure services have added to the value of the adjoining land.

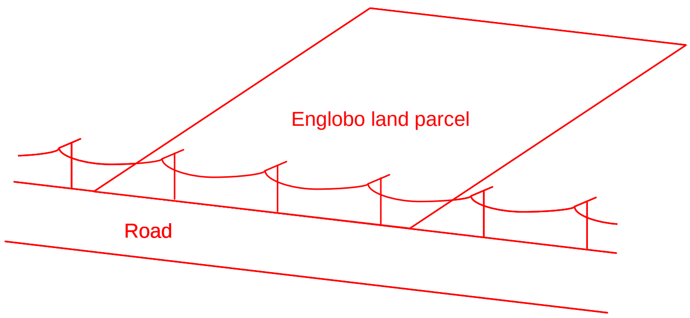


Figure 2: Un-subdivided land – Englobo parcel

When the land is subdivided into usable lots, and provided with relevant services, the road and associated services have provided further value to the land.

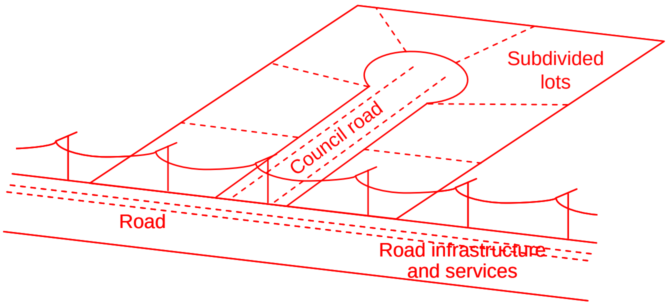


Figure 3: Subdivided land

The englobo value of the land under the road is the proportional site value of the land at the time when the land is sold for subdivision.

Englobo methodology – example numbers only

- Use the average site value (SV) for each council in dollars per square metre or hectare over the council area.

  Note: The SV is 'the value of the underlying land assuming that any existing improvements have not been made. It also assumes that the land is not encumbered by any lease, mortgage or other charge' (Australian Property Institute, 2004).
- Less 65% adjustment factor for englobo value
- Less 25% adjustment factor for access and carriageway rights and infrastructure (other users of carriageway reserve and infrastructure)
- (this represents a cumulative total 90% discount from the starting average SV.)
- Multiply the adjusted (discounted) value (dollar rate per square metre or hectare) by the total road reserve areas (square metre or hectare) in the council area.
- Equals the value of land under roads in the council area (Balfour, 2008).

Englobo example based on illustrative numbers above
A city council has a road length of 250 km
Average width of road reserves is 20m
Road reserve area = 5,000,000m^2

The city area is 800 km^2 (800M m^2)
Site value is \$6,800M – \$8.50 /m^2.
[\$6,800M/800M m^2]

Adjustment for englobo value
\$8.50/m^2 x 65% = \$5.525 /m^2
Englobo value \$2.975 /m^2
[\$8.50 /m^2 – \$5.525 /m^2]

Adjustment for access rights
\$8.50 /m^2 x 25% = \$2.125 /m^2
Access adjusted value \$0.85 /m^2
[\$2.975 /m^2 – \$2.125 /m^2]

LUR area is 5M m^2
Unit value of non-road land = \$0.85 /m^2
[\$8.50 /m^2 – 90% – \$0.85 /m^2]

Therefore, value of LUR = \$4,250,000
[5M m^2 x \$0.85 /m^2]

The Office of Local Government has determined that councils can use any of the valuation methods described above for valuing LUR where council has determined that the method provides a fair value under AASB 13. The method selected should be fully disclosed in the significant accounting policies and should be applied consistently for LUR recognised pre- and post- 1 July 2008.

The Office of Local Government has also determined that the average unit values, and the average site values referred to in the valuation methods above, can be derived from Valuer General valuations.

Councils are reminded that LUR acquired after 1 July 2008 must be recognised. Where that land is dedicated to the council, the value recognised should be in accordance with the valuation method selected and disclosed above.

Land improvements, other structures and other assets
Land improvements (that are not already captured as part of the road valuation) include all works carried out to the land to improve its utility and/or service potential, or to make it ready for an identified use.

Other structures include all other structures not included in the category of buildings that are controlled by a council and constructed for a variety of purposes. Examples include statues, fences, monuments, clock towers and so on. Open space/recreational assets may include assets such as swimming pools (but not including buildings, plant and equipment, car parks etc. that are associated with the swimming pool), playground equipment, BBQs and outdoor fitness facilities and other infrastructure such as jetties, boat ramps, sea/rock/retaining walls etc.

Other assets are any assets that are not classified elsewhere. Some specific assets included in this class are library books (common use, reference and heritage collections), and items or artefacts of cultural or heritage significance.

Council must ensure that it has individually identified and valued these assets as part of this exercise if it has not done so previously.

Plant and equipment
For NSW councils this asset type will comprise construction equipment, road-making plant and equipment, motor vehicles and office equipment etc.

Physical non-current assets are to be valued at fair value in accordance with AASB116 *Property, Plant and Equipment*, AASB13 *Fair Value Measurement* and AASB140 *Investment Property*.

In light of the nature and value of council plant and equipment, the Office has stated the fair value of these assets is unlikely to be materially different from depreciated historical cost. Councils should confirm whether this is the case and whether any assets have suffered impairment losses.

Bulk earthworks
Bulk earthworks are the major earthworks undertaken at the initial construction of road and drainage assets, for example cut and fill for a road or drainage detention basin. These would normally be included as a component of a road or drainage segment; however, councils have the option to treat all bulk earthworks as a separate class of assets if this is more convenient. Bulk earthworks are non-depreciable but need to be carried at fair value.

Bulk earthworks are distinct from land improvements, which would usually include the following items:

- landscaping
- external playing surfaces
- water and drainage reticulation
- walking tracks.

Australian Infrastructure Financial Management Guidelines Manual 2015
Councils may refer to the manual for more information on accounting for infrastructure, property, plant and equipment (particularly Section 12 of the manual). The manual is available at www.ipwea.org/aifmm

Fair value
Councils are reminded of the need to have adequate documentation including demonstrating their valuation assumptions are appropriate and the valuation technique used maximises observable inputs. Council's auditor will use this documentation to form an opinion on the fair value of council assets and investments. Councils should contact their auditor prior to the audit date to establish the required documentation. This is the responsibility of councils.

Fair value measurement of community land and land under roads is impacted by restrictions such as the sale or use of the asset. Restrictions on the asset which cannot be removed by Council are a characteristic of the asset which should be taken into account in fair value measurement. Land will usually be measured using the market approach (i.e. based on a market selling price). Restrictions on land which are non-entity specific should be accounted for as a discount to market value.

The NSW Valuer General's valuations may be used under the revaluation model to represent fair value of community land. As the NSW Valuer General's valuations are based on unimproved land value, councils need to separately consider any improvements made to community land in the overall fair value assessment.

Appendix G
Accounting examples

These examples are to illustrate accounting treatments only and should not be used for any other purpose.

Example 1 – Financial assets and liabilities

1. Council has transacted the following financial assets and financial liabilities.

Financial assets

- Government bonds – bonds with a face value of $3,000,000 paying fixed interest of 5% over five years. Redeemed 30 June 2009.
- Term deposits
  – 30-month term deposit paying 5.8% interest with a face value of $2,000,000.
  – 24-month term deposit paying 7% with a face value of $1,000,000.
  – 36-month term deposit paying 4% with a face value of $3,000,000.
  – 48-month term deposit paying 8% with a fair value of $3,000,000.
  – 60-month term deposit paying 7% with a fair value of $6,000,000 (maturing in next 12 months).
- Loan to sporting club – $1,000,000 interest free loan repayable five years from date of issue. Provided on 1 July 2005. Repaid in July 2010.

Financial liabilities

- Loan from NSW Government – $10,000,000 interest free loan repayable by equal annual instalments over 10 years. Raised on 30 June 2006.

2. Classification of the financial instruments is as follows:

- Amortised cost – government bonds
  term deposit
- Loans and receivables – Amortised cost – loan to sporting club
  loan from NSW Government.

Note

Following the Cole Inquiry, the Minister's order for council investments was amended to eliminate managed funds, CDOs, ELNs and other equity-based securities. Councils can, however, 'grandfather' any existing securities that are outside the new order.

3. Measurement

Amortised cost – government bonds, loan to sporting club

(i) Government bonds

In this example the bonds will be held to maturity by the council. Council has the intention and ability to hold the bonds to maturity date. The cash flows from the bonds are fixed and determinable.

The critical issue is the fair value of the instrument when it was purchased, because all financial instruments are initially recognised at fair value. Let us say the council purchased the bonds on 1 July 20X4 for $3,000,000, and they mature on 30 June 20X9. In most cases the fair value of the instrument will be the consideration paid and therefore there is no adjustment to the carrying value, i.e. carrying value is the amortised cost. However, let us assume that in this case the fair value was less – say $2,640,690 – because the interest rate we received (5%) was below market (8%) at the time.

How do we arrive at the fair value?

Assuming the market rate for this type of bond was 8%, then we use an 8% discount rate on the cash flows:

$150,000	interest received in 20X5 @ .9259 =	$138,885
$150,000	interest received in 20X6 @ .8573 =	$128,595
$150,000	interest received in 20X7 @ .7938 =	$119,070

$150,000	interest received in 20X8 @ .7350 =	$110,250
$150,000	interest received in 20X9 @ .6806 =	$102,090
$3,000,000	principal redeemed in 20X9 @ .6806 =	$2,041,800
Net Present Value (NPV) of cash flows		$2,640,690

The effective interest rate which discounts the cash flows to the fair value is 8%.

(a) On 1 July 20X5

Initial recognition of the purchase of the bond at fair value on 1 July 20X4:

Dr	Investment – fair value	$2,640,690	
Dr	Borrowing cost – discount recognised on purchase of investment	$359,310	
Cr	Cash paid		$3,000,000

Subsequent measurement is at amortised cost using the effective interest rate method:

Dr	Opening retained earnings	$298,055	
Cr	Investment – amortised cost		$298,055

Being the adjustment of the carrying amount of the bonds to amortised cost 1 July 20X5
($3,000,000 – $2,701,945 = $298,055)

(b) Calculation of amortised cost at 30 June 20X6 and unwinding of discount:

Dr	Investment – amortised cost	$216,155	
Cr	Interest revenue – amortisation of discount		$216,155
Dr	Cash – interest received	$150,000	
Cr	Investment – amortised cost		$150,000

Amortised cost at 30 June 20X6 is $2,768,100, arrived at by the above entries.

Note
Amortised cost recalculated per table above until it reaches face value of $3,000,000 on 30 June 20X9 (the maturity date).

(c) Calculation of amortised cost at 30 June 20X7 and unwinding of discount:

Dr	Investment – amortised cost	$221,448	
Cr	Interest revenue – amortisation of discount		$221,448
Dr	Cash – interest received	$150,000	
Cr	Investment – amortised cost		$150,000

Amortised cost at 30 June 20X7 is $2,839,548, arrived at by the above entries.

Amortised cost – government bonds, loan to sporting club (continued)

(d) Calculation of amortised cost at 30 June 20X8 and unwinding of discount.

Dr	Investment – amortised cost	$227,164	
Cr	Interest revenue – amortisation of discount		$227,164
Dr	Cash – interest received	$150,000	
Cr	Investment – amortised cost		$150,000

Amortised cost at 30 June 20X8 is $2,916,712, arrived at by the above entries.

Note

Amortised cost recalculated per table above until it reaches face value of $3,000,000 on 30 June 20X9 (the maturity date).

(e) Calculation of amortised cost at 30 June 20X9 and unwinding of discount:

Dr	Investment – amortised cost	$233,288	
Cr	Interest revenue – amortisation of discount		$233,288
Dr	Cash – interest received	$150,000	
Cr	Investment – amortised cost		$150,000

Amortised cost at 30 June 20X9 is $3,000,000, arrived at by the above entries.

Note: Bonds were redeemed in July 20X9.

Amortised cost

(ii) Loan to sporting club

The loan was made on 1 July 20X5. That is, council loaned the club $1,000,000 to install floodlights at nil interest with the loan repayable on 30 June 20X0 in full.

a. Recognition of the original transaction at 1 July 20X5.

Dr	Fair value of loan receivable	$747,300	
Dr	Borrowing costs – discount recognised on issue of loan	$252,700	
Cr	Cash paid		$1,000,000

Being the recognition of the loan at fair value on its inception.

Assuming the market rate payable on the loan was 6%. $1,000,000 discounted over five years at 6% is $747,300 (the NPV and fair value of the loan).

b. Calculation of amortised cost of the loan at 30 June 20X6.

Dr	Loan receivable	$44,838	
Cr	Interest revenue – amortisation of discount provided on interest free loan		$44,838

Being unwinding of discount provided on interest free loan –
6% of amortised cost $747,300 = $44,838 (6% being the effective interest rate)

Amortised cost of loan at 30.6.X6
= $747,300 + $44,838 = $792,138

c. Calculation of amortised cost of the loan at 30 June 20X7.

Dr	Loan receivable	$47,528	
Cr	Interest revenue – amortisation of discount provided on interest free loan		$47,528

Being unwinding of discount provided on interest free loan –
6% of amortised cost $792,138 = $47,528 (6% being the effective interest rate)

Amortised cost of loan at 30.6.07
= $792,138 + $47,528 = $839,666

d. Calculation of amortised cost of the loan at 30 June 20X8.

Dr	Loan receivable	$50,380	
Cr	Interest revenue – amortisation of discount provided on interest free loan		$50,380

Being unwinding of discount provided on interest free loan –
6% of amortised cost $839,666 = $50,380 (6% being the effective interest rate)

Amortised cost of loan at 30.6.X8
= $839,666 + $50,380 = $890,046

Note:
The discount is unwound at 6% of the amortised cost at the start of each period until the face value of the loan is reached.

e. Calculation of amortised cost of the loan at 30 June 20X9.

Dr	Loan receivable	$53,402	
Cr	Interest revenue – amortisation of discount provided on interest free loan		$53,402

Being unwinding of discount provided on interest free loan –
6% of amortised cost $890,046 = $53,402 (6% being the effective interest rate)

Amortised cost of loan at 30.6.X9
= $890,046 + $53,402 = $943,448

Note:
The discount is unwound at 6% of the amortised cost at the start of each period until the face value of the loan is reached.

(g) Calculation of amortised cost of the loan at 30 June 20Y0.

Dr	**Loan receivable**	**$56,607**	
Cr	**Interest revenue**		**$56,607**

Being unwinding of discount provided on interest free loan –
6% of amortised cost $943,448 = $56,607 (6% being the effective interest rate)

Amortised cost of loan at 30.6.X0
= $943,448 + $56,607 = $1,000,055

Note:
Loan was repaid to council in July 20Y0.

Example 2 – Revaluation of infrastructure, property, plant and equipment assets (AASB 116)

Example 2A – Technology impairment

Council is aware that a new road re-sealing technology has significantly cut the cost of re-sealing by up to 50%. Road seals are currently capitalised in Property Plant and Equipment (PPE) at $5 million replacement cost less $2.5 million accumulated depreciation and therefore there is evidence that the current carrying amount is not fair value which triggers the need for a reassessment of fair value.

The cost approach for fair value is used and therefore, a prima facie case to write down the road seals to their current replacement cost from $2.5 million to $1.25 million.

Assuming the decrement/impairment in fair value arose in the current reporting period and there had been no previous revaluation increments:

Dr	Impairment loss/fair value decrement on road seals	$1,250,000	
Cr	Road seal asset		$1,250,000

Being the recognition of an impairment loss in the Income Statement or revaluation decrement in the reserve.

Note: The cost and accumulated depreciation are not adjusted, but netted with the impairment provision to arrive at net book value.

Example 2B – Revaluation of bulk earthworks at 30.6.20Y0

	$'000
Carrying value of bulk earthworks at 30.6.20Y0 before revaluation	40,037
Replacement cost of bulk earthworks at 30.6.20Y0	200,000

Bulk earthworks are non-depreciable, so the revaluation entries are as follows:

Revaluation entries:

As at 30.6.10		**$'000**	**$'000**
Dr	Bulk earthworks	159,963	
Cr	Asset revaluation reserve		159,963

Note: Bulk earthworks associated with all infrastructure is held as a separate class of assets.

Example 2C – Revaluation of community land at 30.6.20Y1

Council's community land is to be revalued to fair value in 20Y0/Y1.

For the purpose of this example, the following assumptions are made:

- **Community land is revalued at 30.6.20Y1.**
- **Fair value is determined by the Valuer General valuations on individual parcels of community land having a base date of 1 July 20Y0.**
- **During the revaluation process, council identified a significant number of parcels of community land which had not previously been recognised. The value of these parcels was $200 million using the current Valuer General valuations.**
- **Also during the revaluation process, council identified parcels of community land that had previously been classified as operational land in error. The value of these parcels was $100 million using the current Valuer General valuations. They had previously been valued as operational land at $130 million.**
- **Carrying value of community land at 30.6.20Y1 before the revaluation:**

	$'000
Cost	**19,147**

- **The revaluation carried out at 30.6.20Y1 based on Valuer General valuations established the following values:**

	$'000
Fair value	**500,000**

(being land not recorded $200m, land incorrectly classified $100m and revaluation of existing land $200m)

(there is an assumption in this example that values could not be determined prior to 30.6.Y1**)**

Correction of errors:

As at 30.6.Y1		**$'000**	**$'000**
Dr	**Community land**	**200,000**	
Cr.	**Retained earnings**		**200,000**

Being the value of community land not previously recognised and now brought to account for the first time. Initially this would have been recognised through Income Statement and therefore this entry is through retained earnings. If the council can determine values prior to 30.6.Y1 then the value at the earliest date would be taken to retained earnings and revaluations since that date taken to revaluation reserve

As at 30.6.Y1		**$'000**	**$'000**
Dr	**Community land**	**100,000**	
Cr.	**Operational land**		**100,000**

Being the reclassification of operational land to community land correcting previous errors.

Revaluation entries:

As at 30.6.Y1		$'000	$'000
Dr	Community land	180,853	
Cr.	Asset revaluation reserve		180,853

Being the revaluation of community land to fair value as represented by the latest Valuer General valuations.

As at 30.6.Y1		$'000	$'000
Dr	Asset revaluation reserve	30,000	
Cr.	Operational land		30,000

Being the adjustment to the value of operational land to reflect the fact that some community land had previously been included in the operational land category and revalued (in 20X8) to market values which are higher than the VG valuations. The carrying value of community land held incorrectly in the operational land category was $130 million, but its fair value was only $100 million.

Example 3 – Investment property (AASB 140)

Council is required to adopt the fair value model for valuing investment properties. Fair values at the critical dates are as follows.

	Fair value
1.7.X4 (purchase)	$500,000
30.6.X5	$600,000
30.6.X6	$550,000
30.6.X7	$625,000

1. *Entries at purchase date*

Dr	Investment properties	$500,000	
Cr	Cash		$500,000

2. *Entries for 30 June 20X5*

Dr	Investment properties	$100,000	
Cr	Fair value adjustment – Investment properties		$100,000

Being adjustment to fair value – Income Statement.

3. *Entries for 30 June 20X6*

Dr	Fair value adjustment – Investment properties	$50,000	
Cr	Investment properties		$50,000

Being adjustment to fair value – Income Statement.

4. *Entries for 30 June 20x7*

Dr	Investment properties	$75,000	
Cr	Fair value adjustment – Investment properties		$75,000

Being adjustment to fair value – Income Statement.

Example 4 – Tip remediation (AASB 137/Interpretation 1)

Council has an obligation to remediate its tip at the end of the tip's life in 20Z0. Based on feasibility and engineering studies, the estimated cost is $20 million in 20Z0.

The NPV of the $20 million at the date of tip establishment using a 6% discount rate is $4.66 million – 6% being the current market assessment of the time value of money and the risks specific to the liability.

Entries at date of tip establishment (1.7.X0)

Dr	Tip asset	$4,660,000	
Cr	Provision for tip remediation		$4,660,000

Being initial recognition of the provision.

Entries in 20X1 period

Dr	Borrowing costs – amortisation of discount	$280,000	
Cr	Provision for tip remediation		$280,000

Being unwinding of discount to arrive at amortised cost using the effective interest rate method:
Provision for tip remediation @ 1.7.X0 multiplied by the effective interest rate of 6%. ($4,660,000 @ 6% = $280,000)

Entries in 20X2 period

Dr	Borrowing costs – amortisation of discount	$296,000	
Cr	Provision for tip remediation		$296,000

Being unwinding of discount to arrive at new amortised cost:
Provision for tip remediation @ 30.6.X1 multiplied by the discount rate of 6%.
($4,940,000 @ 6% = $296,000)

Note
New disturbance, revised costs, revised tip life and changes in the discount rate are adjusted to the tip asset.

Dr	Tip asset
Cr	Provision for tip remediation

The unwinding of the discount is then made against the revised provision in the subsequent periods.

The tip asset is depreciated over the life of the tip.

Appendix H
Guidance on AASB10-12 – The consolidation suite of standards

At each reporting date, councils are required to assess whether there are any changes in the structure of any of their relationships with other entities to determine whether any changes in classification are needed. The consolidation suite of standards comprises:

- AASB10 *Consolidated Financial Statements*
- AASB11 *Joint Arrangements*
- AASB12 *Disclosures of Interests in Other Entities*
- AASB128 *Interests in Associates and Joint Ventures*.

To-do list at each reporting date

1. IDENTIFY any external entities that could be subject to AASB10-12:

   a. Obtain the report to council resulting in the appointment of committee members and delegates to external entities (usually annually).

   b. Develop a register of external entities and arrangements.

2. ASSESS whether council controls or exerts significant influence using the definitions from AASB10 and AASB128:

   a. Refer to any previous control assessment conducted. Have there been any changes?

   b. Does council control the entity in its own right? (AASB10 *Consolidations*.)

   c. Does council share control with another party? (AASB11 *Joint Arrangements*.)

   d. Does council exercise 'significant influence' over another entity? (AASB128 *Associates and Joint Ventures*.)

   e. Is the entity a structured entity requiring additional disclosure? (AASB12 *Disclosures of Interests in Other Entities*.)

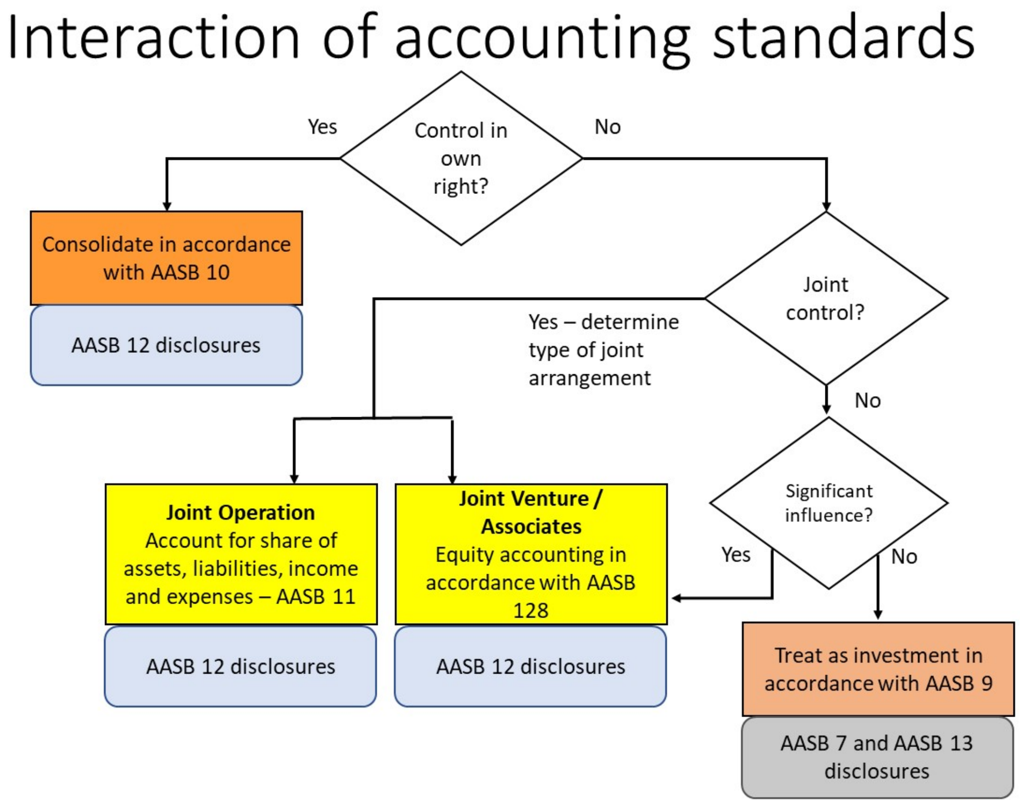
   f. Remaining entities in the register may still need to be accounted for (AASB9 *Financial Instruments*)

3. APPLY the appropriate disclosures:

   a. The *Code of Accounting Practice and Financial Reporting* and AASB 12 contains disclosures for each type of entity.

   b. Significant judgements and assumptions made by council in forming their opinion on the classification of entities should be disclosed.

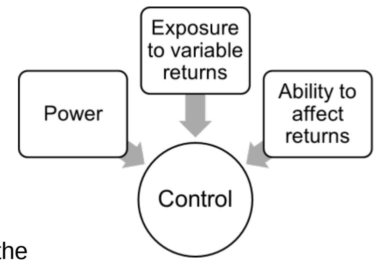
Interaction of accounting standards



1. **AASB10 *Consolidated Financial Statements***
   - An entity that is a parent shall present consolidated financial statements:
     - o A **parent** is an entity that controls one or more entities.
     - o A **subsidiary** is an entity that is controlled by another entity (i.e. the parent).
     - o A **group** is a parent and its subsidiaries.
   - Single control-based consolidation model for all types of entities which aims to reflect the economic substance of the relationship between a reporting entity and an investee.

(a) What is control?
A council controls another entity if: '*it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee'.*

(b) Key concepts for not-for-profit entities



- An investor and an investee are merely entities that have a relationship in which control of one entity (investee) by the other (investor) might arise.
- The investor need not have a financial interest.

(c) What is power?

- Power is defined as existing rights that give the current ability to direct the relevant activities of the investee.
  - o need to have current ability – i.e. able to make decisions at the time the decisions need to be made – substantive rights.
- What are the rights of the investor?
  - o voting rights
  - o potential voting rights
  - o other contractual arrangements
  - o a combination of any or all of the above.
- What are the relevant activities?
- Do the rights give the investor the ability to direct the relevant activities?

(d) Power
- Rights which indicate power often arise from contractual or statutory agreements in place (e.g. rights from administrative arrangement or statutory provisions).
- Other rights:

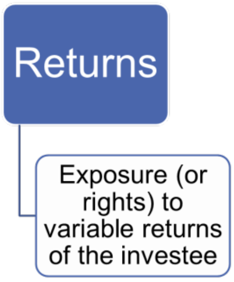
- rights to give policy directions to the governing body of an investee that give the council the ability to direct the relevant activities of the investee; and
- rights to approve or veto operating and capital budgets relating to the relevant activities of an investee.

(e) Rights – substantive vs protective

- Substantive – practical ability to exercise right.
- Protective rights apply only in exceptional circumstances, or where there are fundamental changes in the activities of an investee, e.g.:
  - the right of a regulator to curtail or close operations of a non-compliant entity
  - the right to remove members of the governing body of another entity in certain circumstances, e.g. councillors of a local government
  - the right to remove tax deductibility to a not-for-profit entity.
- Protective rights alone do not give power.

(f) Rights

- Political, cultural, social or similar types of barriers might make it difficult for the investor to exercise rights in relation to the investee – this would not prevent rights from being substantive, e.g.:
  - power to appoint and remove members of railway authority without cause – reluctance to do this due to sensitivity in the electorate.



(g) Variable returns

- broad definition of returns:
  - dividends
  - remuneration from services
  - fees and exposure to losses
  - residual interests on liquidation
  - returns not available to other investors.
- variable returns – potential to vary as a result of the investee's performance
- Multiple parties can be exposed to variable returns.

(h) Returns – NFP considerations

- Nature of returns includes financial, non-financial, direct and indirect benefits – whether positive or negative – including the achievement of furtherance of the investor's objectives. For example, the provision of goods and services by the investee to its beneficiaries may affect the extent to which the investor's social policy objectives are furthered.

(I) Ability to affect returns of the investee

- Investor has the ability to use its power to affect investor's returns from its involvement with the investee.
- Control – power that could be used to benefit the investor.

(j) Agent vs principal

- Agency relationship – A principal contracts another party to perform specified services on behalf of the principal that involve delegating some authority to the agent.
- Delegated power does not mean control – many agent contracts provide power not control or judgement.
- Agent:
  - acts in the best interest of the principal (fiduciary responsibility)
  - additional measures to ensure the agent does not act against the interests of the principal.

(k) Agent vs principal assessment

- Consider:
  - rights held by other parties (i.e. kick-out rights held by single party?)
  - scope of the decision-making authority
  - remuneration of the decision-maker (magnitude and variability)
  - other interests that the decision-maker holds in the investee.
- Different weightings to factors but 'kick-out' rights are conclusive.

Councils should be alert to the possibility that some outsourced activities, such as leisure and aquatic facilities could meet the control test and as such require consolidation. To assist in this assessment Council should consider (if the service is asset dependent) two indicative tests:

- Whether substantially, the risks and rewards of owning the asset have been retained by Council and
- Whether Council has significant influence over the service outcomes, such as setting pricing and operating hours, staffing requirements.

If both tests are met Councils are likely to have control.

Control is likely to exist where a contractor has established a specific purpose vehicle to deliver the contract service to Council and the contract exposes Council to variable returns.

2. AASB11: Joint arrangements
What is a joint arrangement?

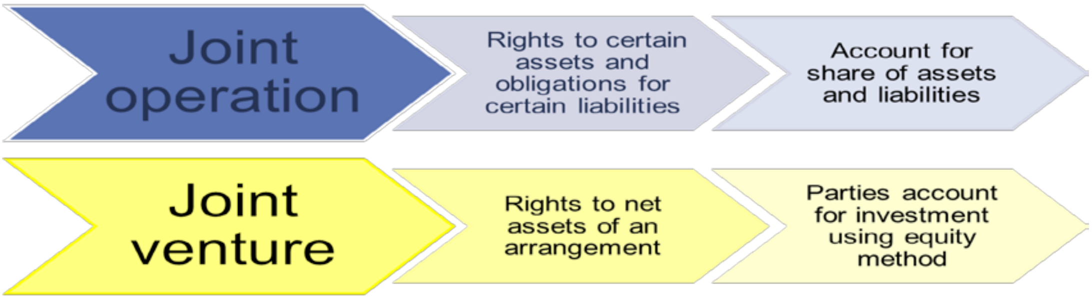
Joint arrangement – an arrangement in which two or more parties have joint control. Joint control only exists where decisions about the activities require the unanimous agreement of the parties.

- A joint arrangement has the following characteristics:
  - The parties are bound by a contractual arrangement.
  - The contractual arrangement gives two or more of those parties joint control of the arrangement.
  - AASB11 principle – all parties should recognise their rights and obligations arising from the arrangement.

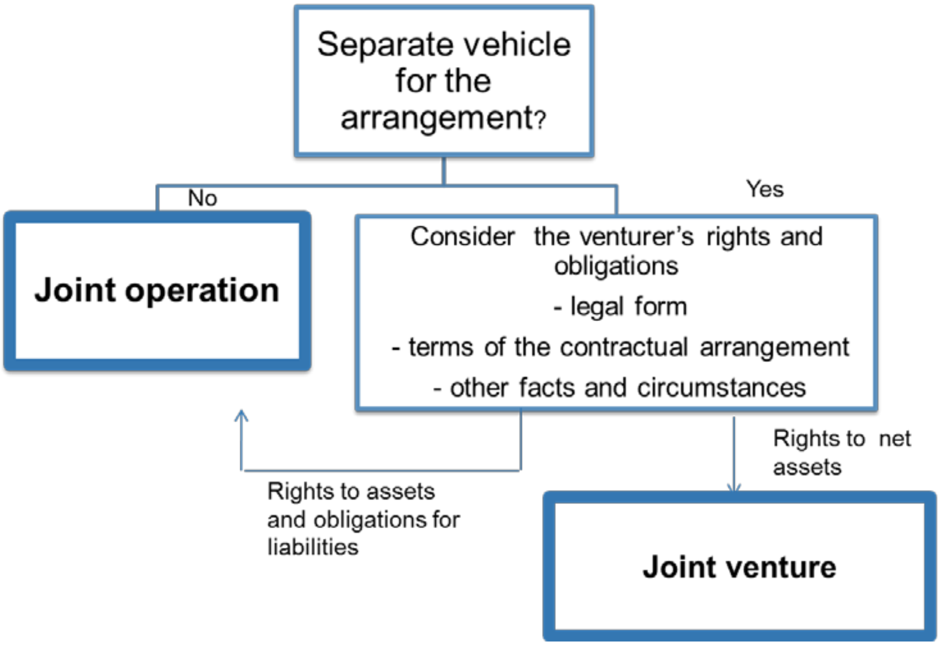
Classifying joint arrangements

The accounting treatment for joint arrangements will depend on the contractual rights and obligations of Councils rather than on the legal structure of the joint arrangement.

Councils cannot choose their accounting treatment; the decision must be based on the substance of the joint arrangement.



Classification summary



3. AASB12: Disclosures of interests in other entities

- Applicable to an entity with an interest in any of the following:

Subsidiaries | Joint arrangements | Associates | Unconsolidated structured entities

  - o Disclosure only standard
  - o Require a council to disclose information to evaluate:
    - a. the nature of, and risks associated with, *its interests in other entities*
    - b. the effects of those interests on its financial position, financial performance and cash flows.

Four broad categories of disclosure:

- Information about:
  1. Significant judgements and assumptions a council has made in deciding whether it has control, joint control or significant influence over another entity
  2. A council's interest in subsidiaries
  3. A council's interest in joint arrangements and associates
  4. The nature, extent and risks relating to a council's interests in unconsolidated structured entities.

Refer to section A - General Purpose financial statements for illustrative disclosures and AASB 12 for a complete list of requirements.

Appendix I
Guidance on AASB 124 *Related Party Disclosures*

Guidance on adoption of AASB124 *Related Party Disclosures*

AASB 124 became effective for councils from 1 July 2016. The AASB did not include any not-for-profit public sector-specific paragraphs in AASB124. However, Australian Implementation Guidance has been added as an Appendix and an agenda rejection decision regarding materiality was published.

The implementation guidance reminds councils that materiality still exists in the context of related parties and provides the following information:

> *'as is often the case with related party transactions, judgement would be required as to when transactions are material, especially when qualitative assessments are made about the nature of transactions.*
>
> *'entity would also need to apply judgement in determining the extent of information it needs to collect to meet the objective of AASB 124, as there is little value in an entity incurring significant costs to obtain data that is immaterial for disclosure.'*

When councils are considering whether a disclosure of a related party transaction is material, they should consider not just the financial amount, but whether the user of the financial statements would be impacted by the information in making decisions, i.e. in their vote for councillors etc. An alternative way of thinking about whether a disclosure should be included is whether omitted information would make newspaper headlines if it were to be discovered.

As further guidance on materiality in this context, the AASB published an agenda rejection statement. Some pertinent points from this are included below:

'The AASB was asked to consider whether a transaction with a KMP related party that did not occur as part of a public service provider/taxpayer relationship is always material for disclosure in general purpose financial statements.

The AASB expects parties assuming responsibility for general purpose financial statements to apply professional judgement in making an assessment about materiality of related party disclosures.

The objective of AASB 124 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances including commitments with such parties. It is not for the purpose of assessing governance or probity issues.

AASB 101 *Presentation of Financial Statements* contemplates that an entity need not provide a specific disclosure required by an Australian Accounting Standard if the information resulting from that disclosure is not material; that is, the absence of the disclosure could not influence the economic decisions that users make on the basis of the financial statements. The AASB noted it expects those parties assuming responsibility for the general purpose financial statements to apply professional judgement in making an assessment about the materiality of a related party disclosure.

A preparer is likely to first identify the types of related party transactions that may have occurred, then assess, of that population, the types of transactions that:

- Are not material or will likely always be immaterial for disclosure in general purpose financial statements
- Could potentially be material for disclosure in the entity's general purpose financial statements and
- Will likely always be material for disclosure in the entity's general purpose financial statements.

A not-for-profit public sector entity then applies judgement in determining the extent of information it needs to collect to meet the objective of AASB 124. There is little value in an entity incurring significant costs to obtain data that is immaterial for disclosure, and accordingly the Board does not expect information to be collected unless it could be material for disclosure.

The key assessment is whether knowledge of the relationship and terms and conditions could influence a user's understanding of the impact on the financial statements. Where the impact on the financial statements is not material the transaction is not required to be disclosed.

For example, the materiality assessment applied to a transaction with a KMP related party that has been through the entity's procurement processes which require several independent quotes to be obtained is unlikely to differ to that which would apply to the same transaction undertaken with an unrelated party, where the KMP has no influence over the transaction. Similarly an entity may determine that disclosure of the employment of KMP close family members where recruited in the same manner and subject to the same terms and conditions as those offered to other public service employees performing similar roles, to be material only where disclosure of the employment of employees who are unrelated to the entity, made under the same conditions, is material.'

The additional disclosures are not onerous; the time-consuming part of this standard is identifying the transactions, and therefore we have provided a 'to-do list' and other considerations for councils in preparing for the implementation of AASB124.

The to-do list is not comprehensive, and we encourage councils who have other issues/considerations /concerns to forward these to the Office of Local Government so that they might be considered in future iterations of this text. Councils are also encouraged to refer to AASB124 (esp. IG11 and example 7) for further clarification of the types of disclosures for not-for-profit public entities.

Councils should note that like all other information held by councils, information held in relation to related party disclosures is subject to the *Government Information (Public Access) Act 2009* (NSW) (the GIPA Act). This means that the information may be proactively released by council and access may be sought to that information including by way of an access application made under that Act. In determining proactive release and access applications, council must apply the public interest test prescribed under the GIPA Act.

Key definitions

Who is a related party?	A related party is any person or entity that is related to the entity that is preparing its financial statements (referred to in this standard as the 'reporting entity'). a. A person or a close member of that person's family is related to a reporting entity if that person: i. has control or joint control of the reporting entity; ii. has significant influence over the reporting entity; or iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. b. An entity is related to a reporting entity if any of the following conditions applies: i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others). ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member). iii. Both entities are joint ventures of the same third party. iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity. v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity. vi. The entity is controlled or jointly controlled by a person identified in (a). vii. A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

	viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity
What is a related party transaction?	A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.
Key management personnel	Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity. In the Council context, this is Councillors at a minimum but is likely to be the General Manager and possibly direct reports to the General Manager.
Close members of family	Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, and include: a. that person's children and spouse or domestic partner; b. children of that person's spouse or domestic partner; and c. dependants of that person or that person's spouse or domestic partner. Consider other members of family, e.g. parents and siblings.
Compensation	Compensation includes all employee benefits (as defined in AASB119 *Employee Benefits*) including employee benefits to which AASB 2 *Share-based Payment* applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. Compensation includes: (a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within 12 months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees; (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within 12 months after the end of the period, profit-sharing, bonuses and deferred compensation; (d) termination benefits; and (e) share-based payment.

Required disclosures

Reference	Requirement	Comment
AASB124.13	The entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so is disclosed.	Unlikely to be relevant for councils, therefore not included in the Code
AASB124.Aus13.1	When any of the parent entities and/or ultimate controlling parties named in accordance with paragraph 13 are incorporated or otherwise constituted outside Australia, the entity: a. identifies which of those entities is incorporated overseas and where; and b. discloses the name of the ultimate controlling entity incorporated with Australia.	Unlikely to be relevant for councils, therefore not included in the Code
AASB124.17	The entity discloses key management personnel compensation in total and for each of the following categories:	Key management personnel (KMP) are not named – disclosure on an

	a. short-term employee benefits b. post-employment benefits c. other long-term benefits d. termination benefits, and e. share-based payment.	aggregate basis only. Short-term employee benefits include non-monetary benefits. Note: share-based payments are not included in the Code.
AASB124.18	If there have been transactions between related parties, the entity discloses the nature of the relationship with the related party, as well as sufficient information about the transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. Types of transactions: (a) purchases or sales of goods (finished or unfinished) (b) purchases or sales of property and other assets (c) rendering or receiving of services (d) leases (e) transfers of research and development (f) transfers under licence agreements (g) transfers under finance arrangements (including loans and equity contributions in cash or in-kind) (h) provision of guarantees or collateral (i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised), and (j) settlement of liabilities on behalf of the related party. The following information, at a minimum, is disclosed: a. the amount of the transactions b. the amount of outstanding balances, including commitments, and - terms and conditions (i.e. secured or unsecured) and the nature of consideration to be provided in settlement; and - details of guarantees given or received c. provisions for doubtful debts related to the amount of outstanding balances, and d. the expense recognised during the period relating to bad or doubtful debts due from related parties.	Included in the Code, Councils to consider materiality. Transactions with related parties undertaken in the ordinary course of business under the same terms and conditions as non-KMP e.g. use of Council recreation facilities, payment of rates are unlikely to require disclosure.
AASB124.18A	The entity discloses the amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity.	Unlikely to be relevant to councils, and therefore not included in the Code.
AASB124.19	The entity separately discloses all the information required by paragraph 18 at the following levels: a. the parent b. entities with joint control of, or significant influence over, the entity c. subsidiaries d. associates e. joint ventures in which the entity is a joint venturer f. key management personnel of the entity or its parent, and g. other related parties.	Items (a) and (b) are unlikely to be relevant to councils, and therefore are not included in the Code.
AASB124.24	The entity may disclose items of a similar nature in aggregate, except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.	Council to determine appropriate extent of aggregation and disclosures.

AASB124.26	If a reporting entity applies the exemption in paragraph 25, in respect of government related entities, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25: a. the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence) b. the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements: i. the nature and amount of each individually significant transaction, and ii. for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.	Not relevant. Under the Act, councils are largely independent and self-governing bodies with rights and powers conferred by law. They are accountable to their electors for their actions.

To-do list and considerations

1. **Determine who are the related parties of council. In doing so consider:**
   a. key management personnel (KMP)
   b. other related parties, e.g. joint ventures, KMP related entities.

Councils should consider the substance of the relationship and not necessarily the legal form. Councils may want to develop a checklist to distribute to each KMP to identify relevant people and transactions.

2. **Identify the close members of the family of the KMP**, plus their controlled, jointly controlled and significantly influenced entities. (Note: close family members can be other than those described in the definition.)
3. **Distribute a notice of intention to collect information**. Advise each KMP of the intention to collect information relating to transactions between council and related parties that may be disclosed in the financial statements.

4. **Identify the transactions that have occurred between the council (as well as outstanding balances) and:**

   a) key management personnel
   b) close members of the family of the KMP
      (plus their controlled, jointly controlled and significantly influenced entities)
   c) other related parties.

5. **Develop a policy to determine the type of transactions and related criteria around the disclosures.**

Consider separating transactions into those that:

- are not material or will likely always be immaterial for disclosure in general purpose financial statements
- could potentially be material for disclosure in the entity's general purpose financial statements and
- will likely always be material for disclosure in the entity's general purpose financial statements.

The following transactions are examples of those which may occur within councils:

- Transactions between councillors/other KMP and council, for example:
  - Council provides the general manager with housing at a rental rate well below market rate in accordance with the general manager contract.
  - Council approves the rezoning of land belonging to a councillor.
- Transactions between council and close members of the family of the KMP.
  - Contracts awarded by council to related entities of KMP, for example:

        - In accordance with legislation and council's procurement policy, a catering contract was awarded to a café owned by the general manager's, or a councillor's brother.
        - In accordance with legislation and council's recruitment and merit selection process, council has employed the chief financial officer's spouse.
- Transaction between Council and entities controlled or jointly controlled by KMP or close members of the family of the KMP
    - Any entity, regardless of legal form or purpose, that is controlled or jointly controlled by a KMP or close family member of a KMP is a related party of Council
    - Entities are not limited to corporate or business activities and can include clubs, associations and sporting groups. Careful consideration will need to be given to other positions held by KMP and their close family members to determine if they have the ability to control or jointly control the entity (business, club or association).
    - Membership of a governing body of a club or association would not necessarily of itself be sufficient evidence of control or joint control of that club.
- Transactions between council and other related parties, joint ventures, subsidiaries etc.
    - Contracts awarded by council to a related party, for example:
        - In accordance with legislation and council's procurement policy, council's waste disposal contract was awarded to an entity that is a subsidiary of council.

6. **Review systems and processes for the capability to collect information** including capturing relevant information when KMP are appointed / resign or during Council elections**.**

7. **Review existing disclosures, i.e. pecuniary interest returns, annual reports.**

The related party disclosures will not necessarily remain static and therefore should be removed and updated each year for changes in transactions and KMP.

Examples

Example 1:
The General Manager's (GM's) spouse is employed as a salesperson in a large hardware store that provides building material to council, the hardware store is unlikely to be a related party as the GM's spouse would not have the ability to control or jointly control the entity. In contrast if the GMs spouse owned and operated a local newsagent where the Council then the newsagent would most likely be a related party of council as the spouse would have the ability to control the operations of the newsagent.

Acting and part-year appointments

In relation to management positions (including the GM) disclosures required relate to persons and not positions. Nevertheless, if more than one person holds a specific position during the period it is expected that, where this has a significant impact on the disclosure, appropriate narrative would be included to explain the situation.

Generally, if a person is acting in a position that is currently filled (i.e. covering a period of annual leave) they are not to be included as a KMP or senior officer. An exception to this is where the officer in the acting role is doing so because the nominal holder of the position is acting in a vacant position. If a person is acting in a vacant position that person is generally to be included (for the period of acting). Professional judgement should be exercised when assessing acting arrangements and factors such as the types of decisions the person can make while acting (e.g. the power to sign major contracts) should be considered. All personnel holding KMP positions, whether acting or not, are to be considered when determining related parties. When a person (management or councillor) is not a KMP for the full period, related parties are only considered during the period that they hold a KMP position.

Note that where Councillors occupy their role for only a portion of the financial year (for example during an election year) appropriate processes are required to capture the relevant related party information.

Example 2:
Council A has a GM and 3 directors. Along with 6 councillors this makes a total of 10 KMP positions. During the year the following events occurred:

- A general election was held on 22 October resulting in 4 councillors being returned and 2 new councillors being elected;
- The GM resigned on 1 January;
- The Director Corporate and Community Services acted in the GM role until an external appointment was made on 1 March; and
- A senior officer acted in the role of Director Corporate and Community Services for the period 1 January – 1 March.

These events would result in the following numbers of KMP disclosed:

- Councillors 8, being 6 at start of year and 2 newly elected;
- Non-Councillors 6, being 4 at start of year, new GM and Acting Director.

Although the position the Acting Director held was filled by another officer, the Acting Director is included in KMP as the reason for the acting was the vacant GM position.

Total remuneration paid to all 14 individuals would be disclosed an aggregate by remuneration category in AASB 124.

Appendix J
Guidance on AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of NFP Entities*

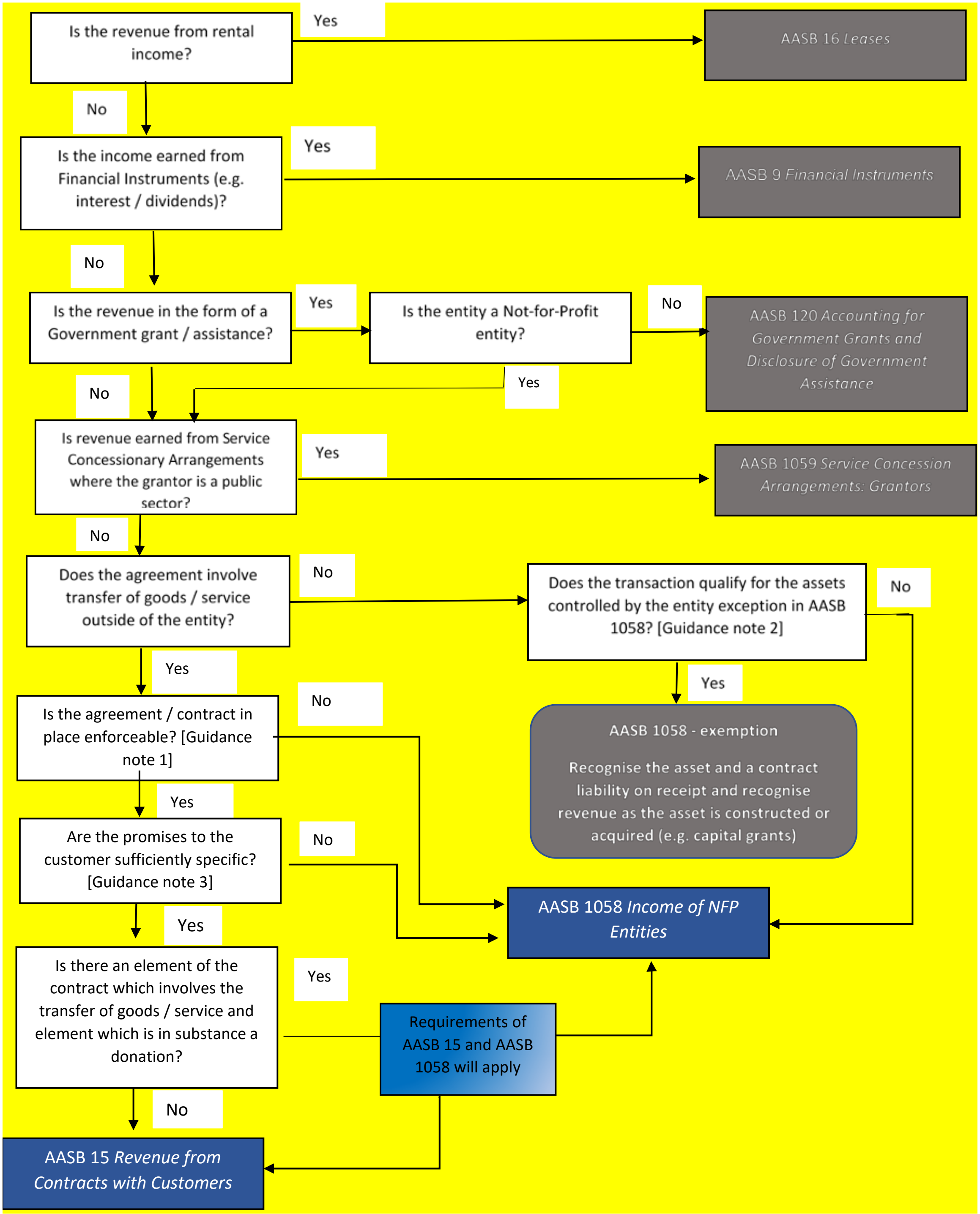
The introduction of AASB 15 and AASB 1058 may result in changes to the timing and amounts of revenue recorded by Councils.

Which standard?

Councils have to firstly determine which is the relevant standard for their revenue stream. The standard used will impact the timing and amount of revenue.

Revenue streams such as grants could be in either or both standard and therefore the terms and conditions of the agreements should be carefully assessed.

The decision tree and guidance provides information to assist in this process



Guidance Notes

1.	**Enforceability (refer F10 – F18 of AASB 15)** An agreement is enforceable when a separate party is able to enforce it through legal or equivalent means – i.e. there is a presence of a mechanism inside or outside the legal system that gives a separate party the right to oblige an entity to act in a particular way or be subject to consequence. Example terms that result in enforceable agreements include: • Refund in cash or kind is required when the agreed specific performance has not occurred • The customer, or another party acting on its behalf, has a right to enforce specific performance or claim damages • The customer has the right to take a financial interest in assets purchased or constructed by the entity with resources provided under the agreement • The parties to the agreement are required to agree on alternative uses of the resources provided under the agreement and • An administrative process exists to enforce agreements between sovereign States or between a State and another party. A sufficiently specific written agreement can be enforceable even if the particular terms do not include refund or other enforcement provisions since Australian law generally provides remedies of specific performance or damages for breach of an agreement. The enforceability of agreements does not depend on their form. Enforceability relates to the customers ability to enforce regardless of whether they choose to enforce the contract.
2.	**Assets controlled by the entity (refer to 15 – 17 of AASB 1058)** If an entity has received capital funding for the acquisition or construction of a recognisable non-financial asset (e.g. funding to construct a building) that will be controlled by the entity once completed under an agreement which meets the following criteria: (a) requires the entity to use that financial asset to acquire or construct a recognisable non-financial asset to identified specifications; (b) does not require the entity to transfer the non-financial asset to the transferor or other parties; and (c) occurs under an enforceable agreement. then the transaction qualifies for the assets controlled by the entity exception under AASB 1058.
3.	**Sufficiently specific (refer F20 – F27 of AASB 15)** In the not-for-profit sector, the promises provided in the contracts need to be sufficiently specific to be able to determine when the obligation is satisfied – the decision around sufficiently specific is judgemental and therefore should be carefully documented. The entity should look at the goods and services promised in the agreement including the following in relation to the goods / services to be provided: • the nature or type of goods or services • the cost or value of the goods or services • the quantity of the goods or services • the period over which the goods or services are to be transferred. Promises to transfer goods or services to a customer may also be implied with the customary business practices, published policies or specific statement and should be considered in accordance with the guidance in F23 of AASB 15. If the agreement specifies only a time period for spending the money then this in itself would not meet the sufficiently specific criteria, however in contrast a time period or quantity must be provided for the entity to know when the requirement to provide the goods / services has ended (i.e. been fulfilled).

Accounting policy options

There are a number of accounting policy choices within the revenue standards, the tables below summarise OLG's position in relation to these.

AASB 15 Revenue from Contracts with Customers

Paragraph number	**AASB Accounting option**	**OLG position**	**Rationale**
Transition options			
C3	**We note that the same method has to be chosen for AASB 15 and AASB 1058** **Full retrospective adoption** – both current year (30 June 2020) and comparative year (30 June 2019) are prepared under AASB 15. Adjustments on adoption taken to retained earnings at 1	**Adopt AASB 15 using the modified (cumulative catch up) approach:** • **no restatement of comparatives** • **disclosure at 30 June 2020 of revenue under existing standards**	Option allowed in AASB 15 to make transition to the standard easier. Councils will incur additional costs to restate with little perceived benefits.

	July 2018. Note – under the full retrospective approach, Councils would need to keep two sets of books for 30 June 2019 to allow reporting under the existing standards at 30 June 2019 and reporting under AASB 15 as comparatives in 30 June 2020. **Modified (cumulative catch up) adoption** – current year (30 June 2020) prepared under AASB 15 and prior year (30 June 2019) prepared under existing standards. Adjustments on adoption taken to retained earnings at 1 July 2019. Note – under the modified approach, Councils would be required to report numbers under the existing standards for 30 June 2020 to allow comparability under existing standards and therefore maintain two sets of books for the year-end 30 June 2020.	**to allow comparability.**	Requirement to disclose current year information under the old standard will provide some comparability. Disclosure of impact will be mandated in the Code.
C7	**Practical expedients** Under the modified (cumulative catch up) method, entities may elect to apply AASB 15 only to contracts that are not completed contracts at the date of initial application (1 July 2019). Completed contracts are those: • where all goods / services have been transferred or • where revenue has previously all been recognised under AASB 1004 or in accordance with a AASB 137 provision.	**Prohibit Councils from using this practical expedient, i.e. require them to restate contracts at 1 July 2019 where the Council has transferred all of the goods or services at that date or the revenue has previously all been recognised.**	Incidences where all goods / services have been transferred but the revenue is not fully recognised is expected to be minimal for Councils. In considering the second element of the definition, i.e. where the revenue has been recognised but the goods / services have not been transferred – there would be benefit of this for long-term grants to show the revenue at the same time as the obligations are performed.
C7A	Entity can choose to reflect the aggregate effect of all contract modifications that occur before 1 July 2019 when: i. identifying the satisfied and unsatisfied performance obligations ii. determining the transaction price and iii. allocating the transaction price to the satisfied and unsatisfied This effectively allows Councils to use the benefit of hindsight where changes have previously occurred with the contracts.	**Mandate Councils to use this practical expedient for all contracts, where relevant.**	Given that this practical expedient allows the benefit of hindsight to be used – it will save costs for councils in not having to make adjustments for changes to contracts at numerous dates.

Ongoing options			
4	Entity can choose to apply AASB 15 to a portfolio of contracts (or *performance obligations*) with similar characteristics if the entity reasonably expects that the effects on the financial statements would not differ materially from applying this Standard to the individual contracts (or performance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.	**Allow, but not mandate Councils to use this expedient**	A portfolio basis can only be used if it is not materially different from applying the standard to individual contracts and therefore councils can choose whichever approach is more practical for them
Aus 8.1 – Aus 8.3	A not-for-profit public sector licensor may elect not to apply the requirements in AASB 15 relating to licences to: (a)short-term licences; and (b) licences for which the transaction price is of low value. except where the licences have variable consideration. Where this election is made licensor shall recognise the revenue associated with those licences either at the point in time the licence is issued, or on a straight-line basis over the licence term or another systematic basis.	**Mandate that Councils make the election for applicable licences and recognise revenue from these licences on granting of the licence**	Use of this expedient will provide certainty for councils in relation to revenue recognition and therefore reduced costs since councils will not have to analyse licence requirements where they meet the short term or low value thresholds.
63	An entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.	**Mandate the use of this practical expedient**	Little benefit for councils to calculate significant financing component for less than one year.
94	As a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less	**Mandate the use of this practical expedient**	Little benefit for councils to capitalise costs where the contract length is less than 12 months.
121	As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of following conditions is met: a. the performance obligation is part of a contract that has an original expected duration of one year or less; or b. entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16	**Not mandate but allow the option to use this practical expedience – the Code will include the full disclosure with a guidance note**	Councils need to consider whether the disclosure will add value.

B16	As a practical expedient, if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognise revenue in the amount to which the entity has a right to invoice	**Not mandate but allow the option to use this practical expedient**	Not considered relevant to councils but allow them to use this if applicable.
B43	If a customer has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the contract and are provided in accordance with the terms of the original contract, then an entity may, as a practical alternative to estimating the stand-alone selling price of the option, allocate the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration. Typically, those types of options are for contract renewals.	**Not mandate but allow the option to use this practical expedient**	Not considered relevant to councils but allow them to use this if applicable

Note that the following are not mandated by OLG, as they will depend on the Council's transactions and balances and relate more to judgements rather than accounting policy choices:

- Which standard (AASB 15 or AASB 1058) is relevant for Councils revenue streams
- Whether Council is acting as an agent or principal
- How variable consideration should be calculated and the application of the constraint
- Whether multiple contracts with the same customer (or funding provider) should be aggregated
- What are the performance obligations in a contract
- When are performance obligations satisfied – at a point in time or over time
- Method for measuring progress where performance obligation is satisfied over time
- Allocation of the transaction price to performance obligations
- Whether costs meet the criteria for capitalisation.

AASB 1058 *Income of Not-for-Profit entities*

Paragraph number	**AASB Accounting option**	**OLG position**	**Rationale**
Transition options			
C3	**We note that the same method has to be chosen for AASB 15 and AASB 1058** **Full retrospective adoption** – both current year (30 June 2020) and comparative year (30 June 2019) are prepared under AASB 1058. Adjustments on adoption taken to retained earnings at 1 July 2018. Note – under the full retrospective approach, Councils would need to	**Adopt AASB 1058 using the modified (cumulative catch up) approach:** • **no restatement of comparatives** • **disclosure at 30 June 2020 of revenue under existing standards to allow comparability.**	Option allowed in AASB 1058 to make transition to the standard easier. Councils will incur additional costs to restate with little perceived benefits. Requirement to disclose current year information under the old standard will provide some comparability. Disclosure of impact will be mandated in the Code.

	keep two sets of books for 30 June 2019 to allow reporting under the existing standards at 30 June 2019 and reporting under AASB 1058 as comparatives in 30 June 2020. **Modified (cumulative catch up) adoption** – current year (30 June 2020) prepared under AASB 1058 and prior year (30 June 2019) prepared under existing standards. Adjustments on adoption taken to retained earnings at 1 July 2019. Note – under the modified approach, Councils would be required to report numbers under the existing standards for 30 June 2020 to allow comparability under existing standards and therefore maintain two sets of books for the year-end 30 June 2020.		
C6	An entity may elect to apply AASB 1058 retrospectively only to contracts and transactions that are not completed contracts at the date of initial application.	**Prohibit Councils from using this practical expedient, i.e. require them to restate contracts at 1 July 2019 where the Council has transferred all of the goods or services at that date or the revenue has previously all been recognised.**	Incidences where all goods / services have been transferred but the revenue is not fully recognised is expected to be minimal for Councils. In considering the second element of the definition, i.e. where the revenue has been recognised but the goods / services have not been transferred – there would be benefit of this for long-term grants to show the revenue at the same time as the obligations are performed.
C8	Councils may have acquired an asset at significantly less than fair value but at a value greater than nil or nominal consideration in prior years and recorded the asset at its cost. Option not to restate the value on transition.	Mandate the use of this practical expedient where the asset is recorded in the statement of financial position at its cost.	Cost of obtaining the fair value at the acquisition date is considered onerous with little associated benefit.
Ongoing options			
19	Recognise volunteer services if the fair value can be measured	Prohibit the recognition of volunteer services unless they meet the mandatory recognition	The valuation of volunteer services is a judgemental process

	reliably but the services would not have been purchased if they weren't donated.	criteria in paragraph 18.	and results in recognition of income and expenses with a nil net result in the income statement. If councils want to acknowledge the level of volunteer services, which would not have been purchased if they were not donated, then we encourage councils to include this information in the unaudited section of the annual report rather than in the financial statements.

Note that the following are not mandated by OLG, as they will depend on the Council's transactions and balances and relate more to judgements rather than accounting policy choices:

- Which standard (AASB 15 or AASB 1058) is relevant for councils revenue streams.
- Which classes of volunteer services have fair value, which can be measured reliably.
- Whether volunteer services would have been purchased if they had not been donated.

Guidance on accounting standards

NSW Treasury has developed the below guidance in relation to the Accounting Standards. The documents were written by NSW Treasury for State Agencies and Departments. The primary audience was not NSW councils, nor council related entities, however the NSW Office of Local Government believe that the content could be a useful resource for NSW councils. Comments have been provided by OLG throughout the guidance in **Bold Red.**

- Guidance for AASB 1058 Income of Not-for-profit entities
- Guidance for AASB 15 Revenue from contracts with customers

AASB 15 Revenue from Contracts with Customers

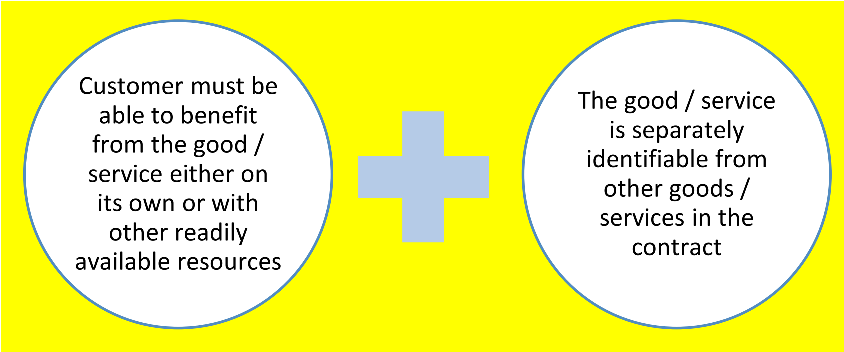
The core principle of AASB 15 is to recognise revenue when Council satisfies a performance obligation by transferring a promised good or service to a customer (fund provider or their nominated beneficiary). AASB 15 moves from a risks and rewards transfer approach to a focus on control of performance obligations. Where Council obtains control of an asset (including cash) prior to the delivery (by Council) of the related performance obligation, Council will need to consider the underlying agreement to determine if they have met the related obligation, if not then a contract liability will be recognised and 'amortised' as / when the performance obligation is satisfied.

The following steps of AASB 15 are likely to have the most significant changes for Councils and therefore some additional guidance in included in this appendix as well as some illustrative examples:

- Step 2: Identify Performance Obligations
- Step 5: Recognise revenue as / when control is transferred.
- Recognition of contract cost assets.

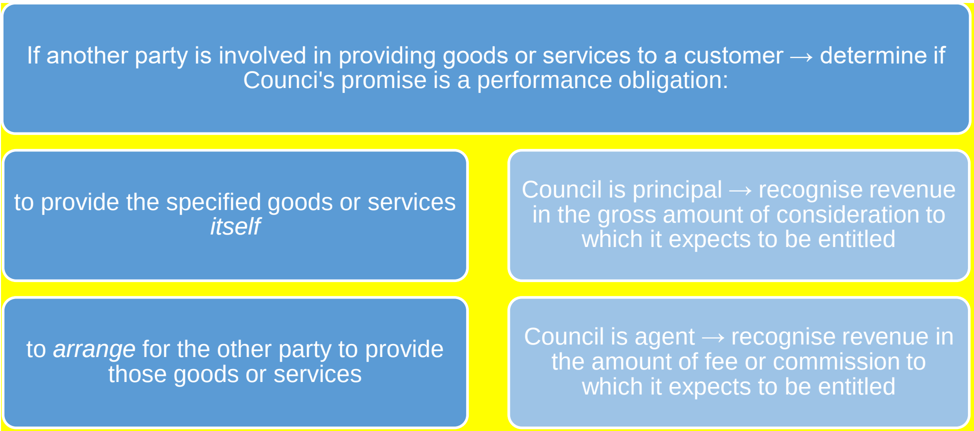
Step 2: Identify performance obligations

A performance obligation is a promise in a contract with a customer to transfer goods or services to the customer.



Councils need to consider the promises they agree to do within the contracts, this is not necessarily the same as payment milestones nor progress reports.

Councils need to determine whether there are any contracts where their performance obligation is to act as an agent (for example where they are a pass-through entity between the State Government and community organisations).



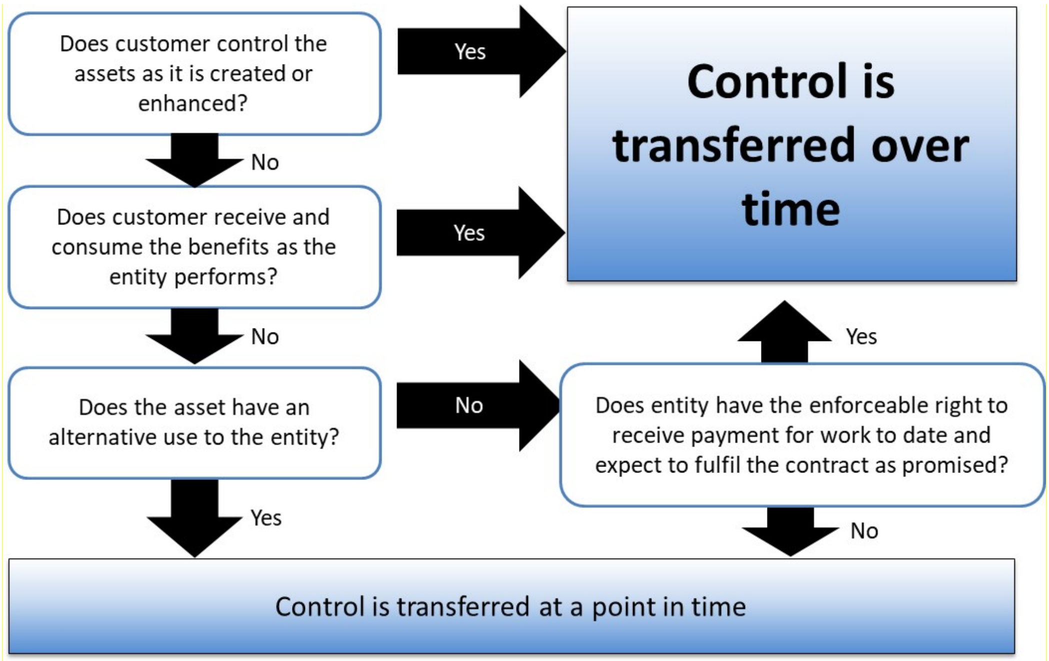
Step 5: Recognise revenue as / when control is transferred

Under AASB 15 revenue is recognised when the control of the goods / services is transferred to the customer (or their nominated beneficiary). Control is either transferred at a point in time (revenue is recognised when the performance obligation is completed) or over a period of time (revenue is recognised as the performance obligation is completed, generally on percentage of completion).

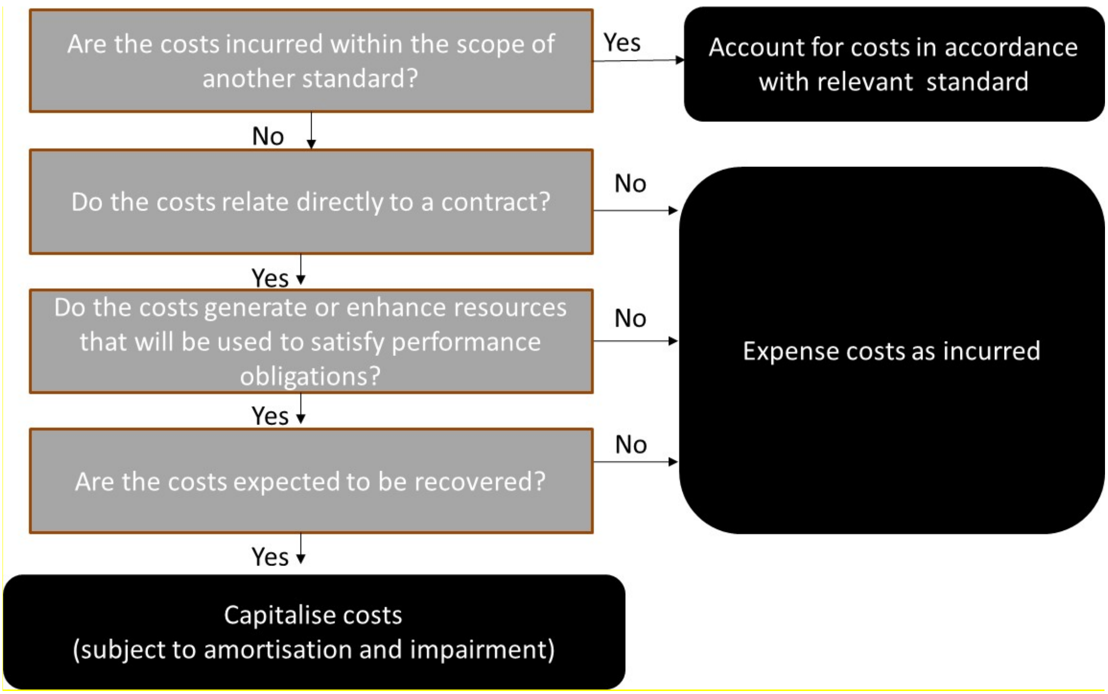
Services are an asset for the purpose of this assessment.

Where, for example, grant funding requires matched funding from Council then an understanding of the terms is required to determine when the performance obligation of Council to the fund provider has been satisfied – this could vary depending on whether the agreement is a 'dollar-for-dollar' arrangement or whether Council is require to expend all their contribution prior to the fund provider having any obligation.

The decision tree below can assist Councils with this step.



Councils should ensure that they are appropriately recording costs incurred to fulfil a contract under the scope of AASB 15 where the revenue recognition pattern is different from the timing that costs are incurred. The following decision tree can assist in the accounting treatment for contract costs.



Examples

The number and variety of contracts that a council may enter into with a customer are almost unlimited, however the assessment process under AASB 15 remains constant. The following two examples walk through the assessment process services.

Aquatic passes

Council provides aquatic passes in books of 10, 20 and 50. These are paid in advance and can be used up to one year from purchase. The passes cost $50, $90 and $200 respectively. Although no formal contract is entered into the passes are sold with a description of key terms and conditions such as access times and expiry dates.

Step 1 - There is a contract with a customer – AASB 15 does not require a written contract, there is an implied contract here as the customer has purchased the passes.

Step 2 - The performance obligation of Council is to provide access to aquatic facilities for the number of visits purchased.

Step 3 – The transaction price is the amount paid for the passes, Council does not provide a refund for unused visits and the passes expire within 12 months and therefore no adjustment is needed for variable consideration or significant financing.

Step 4 – The transaction price is allocated based on the number of visits purchased, i.e total price divided by the number of visits.

Step 5 – Revenue is recognised at the point in time that the visits are redeemed or at the end of 12 months for any unused visits.

On receipt of the funds Council would Dr Cash, Cr Contract liability, on each visit Dr: Contract liability and Cr: Revenue.

Kindergarten fees
Kindergarten fees, for those not paying by direct debit, are paid for the year in advance (Feb – Nov), with the option for refunds for any full terms that a child does not attend. Parents sign an enrolment form that details all relevant terms and conditions.

The analysis is similar to above.

The enrolment establishes a contractual relationship with performance obligations for Council to provide kindergarten facilities and activities as per the terms of the enrolment agreement. Revenue is recognised as Council provides the services and a contract liability is recognised by Council on receipt of the funds.

AASB 1058 Income of NFP Entities

AASB 1058 largely replaces AASB 1004 *Contributions* and establishes principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives.

This standard provides guidance on determining on how to account for revenue which is not in the form of revenue from contracts with customers since these transactions would be in the scope of AASB 15.

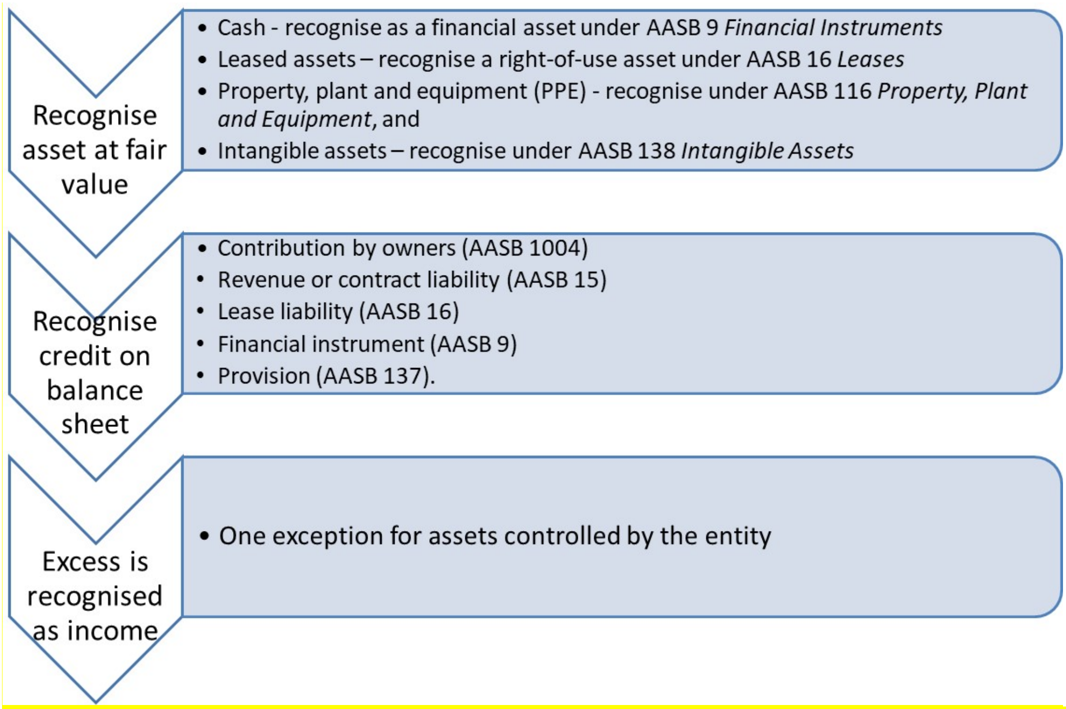
If a grant has been received by Council to further its objectives with no specific obligations, a Council will recognise revenue under AASB 1058 (or earlier if control of an asset can be demonstrated).

The requirements to fair value an asset which was received for nil or nominal consideration has been replaced with the requirement to fair value an asset where the consideration was significantly less than fair value which will mean that more assets will need to be fair valued on day 1, for example:

Asset purchased for $600k since vendor wanted to provide to Council for the purpose of the art gallery. Fair value of the asset is $1m. Under the previous requirements the asset would have been recorded at $600k since it was not acquired for nil or nominal consideration whereas it was purchased for significantly less than fair value and therefore under AASB 1058, it would be recorded at $1m with a $400k income recorded.

If the contracts / agreements in place are not enforceable, do not contain performance obligations (i.e. no transfer of goods / services external to Council) or the performance obligations are not sufficiently specific then the contract (or part of the contract) is within the scope of AASB 1058.

This standard uses a statement of financial position approach which recognises relevant assets and liabilities at their appropriate value with the residual balance being taken to the income statement as illustrated by the following diagram.



The exception to this approach is where Council receives funds to acquire or construct an asset which, once complete, will be under Controls control.

For capital grants, Councils consider whether the following criteria are met:

Where these criteria are met, then Council recognise a contract liability on receipt of the funds which is 'amortised' as the asset is acquired / constructed and therefore the income is recorded as the work is completed rather than on receipt of the funds.

Transition example in relation to the exception

<u>Scenario A</u>
Council successfully applies for a $20m grant to contribute to the development of an art museum.

The funding agreement states that the funds provided are to be expended on council capital works – an acquittal may be required at the discretion of the funding agency.

Council receives the funding on 28 June 2019.

The museum project commences and all funding is expended in 2019 – 20 and the museum opens in August 2020.

Analysis

There is no contract with a customer under AASB 15 since there is no transfer of goods / services external to Council as the funds are to be used for Council capital projects.

The agreement is within the scope of AASB 1058 and since Council has discretion over how to spend the funds rather than it being for an identified asset then it will not meet the criteria for the assets controlled by council exemption.

<u>Scenario B</u>

Council successfully applies for a $20m grant to contribute to the development of an art museum.

The funding agreement states that the funds must be spent on the museum project and they must be returned if they are not or if there is excess funds.

Council receives the funding on 28 June 2019.

The museum project commences and all funding is expended in 2019 – 20 and the museum opens in August 2020.

There is no contract with a customer under AASB 15 since there is no transfer of goods / services external to Council as the funds are to be used for Council capital projects. The funds are for an identified non-financial asset, there is no transfer back to the fund provider and the contract is enforceable and therefore the revenue is within the scope of the exception in AASB 1058.

The funds are recorded as a contract liability on receipt and recognised as revenue as and when the construction is performed.

Transition adjustment:

Under AASB 1004, the funds would have been recorded as revenue on receipt and therefore an adjustment should be made to retained earnings.

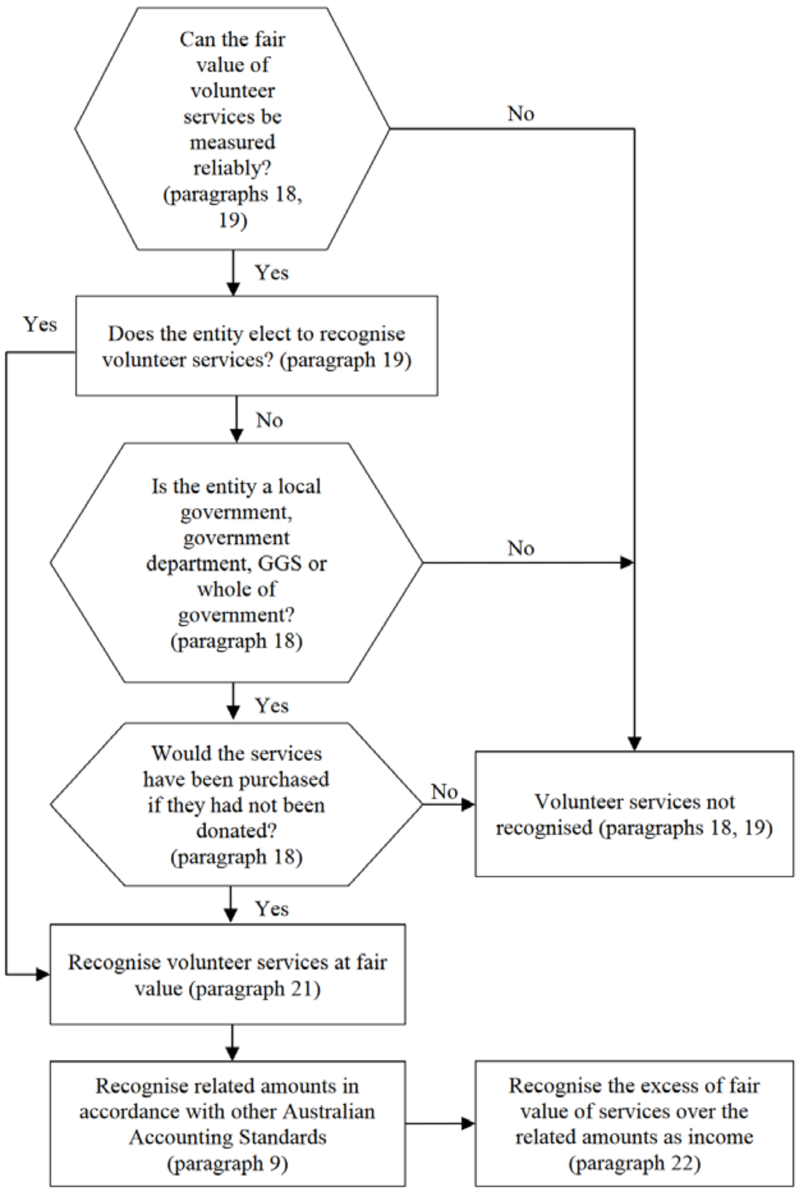
At 1 July 2019:

Dr: Retained earnings	20m
Cr: Contract liability	20m

Note this means that the revenue in relation to the grant will be recorded in both the 2018-19 and the 2019-20 financial years as there is no restatement of comparatives.

Volunteer services

AASB 1058 contains requirements in relation to volunteer services as illustrated in the following decision tree which are consistent with the previous requirements.



If Councils have not recognised volunteer services, then they should provide explanations in the financial statements on a qualitative level, the volunteer services:

- May not be material
- Are not able to be measured reliably or
- Would not be purchased if they were not donated.

Appendix K
Guidance on AASB 16 Leases

AASB 16 replaces the AASB 117 concept of operating and finance leases (for lessee) and requires lessee to recognise the majority of their leases in the statement of financial position, resulting in more assets and liabilities.

The concept of operating and finance leases still exists for lessors.

Accounting policy options

There are a number of accounting policy choices within the revenue standards, the tables below summarise OLG's position in relation to these.

Paragraph number	AASB Accounting option	OLG position	Rationale
Transition options			
C3	An entity (lessor or lessee) is not required to reassess whether a contract is, or contains a lease at the date of initial application. The entity is permitted to: - Apply AASB 16 to contracts previously identified as leases under AASB 117 / Interpretation 4 - Not to apply AASB 16 to contracts that were not previously identified as containing a lease applying AASB 117 / Interpretation 4.	**Mandate the use of this practical expedient – where agreements were previously assessed at inception as not containing leases under AASB 117 and associated interpretations. Supporting documentation for the previous assessment will need to be provided.** **However, we encourage councils to identify agreements (including service agreements) which could meet the definition of a lease under AASB 16 since on renewal date of those contracts; they will need to be accounted for under AASB 16.**	The cost of applying AASB 16 is significant and given the number of leases in place at councils, the preference would be to focus on putting time and effort into ensuring that existing leases are accounted for correctly under AASB 16. Once the service / management agreements are renewed, councils will have to assess whether they meet the definition of a lease and apply the appropriate accounting from that date.
C5	A lessee shall apply AASB 16 to its leases either: **Full retrospective adoption** – both current year (30 June 2020) and comparative year (30 June 2019) are prepared under AASB 16. Adjustments on adoption taken to retained earnings at 1 July 2018. Note – under the full retrospective approach, Councils would need to keep two sets of books for 30 June 2019 to allow reporting under the existing standards at 30 June 2019 and reporting under AASB 16 as comparatives in 30 June 2020. **Modified (cumulative catch up) adoption** – current year	**Mandate modified (cumulative catch up) method of adoption for councils**	Consistent with proposed revenue treatment and allows councils to take advantage of a number of practical expedients in AASB 16 which are only available where modified (cumulative catch up method) is used.

	(30 June 2020) prepared under AASB 16 and prior year (30 June 2019) prepared under existing standards. Adjustments on adoption taken to retained earnings at 1 July 2019.		
C8b	Right of use for each lease is measured at either: - its carrying amount as if AASB 16 had been applied since the commencement of the lease but discounted at the lessee's incremental borrowing rate at the date of initial application or - an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.	**Mandate that Councils recognise right-of-use at amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.**	Whilst the right to use asset will be overstated using this approach – the cost of calculating the balance on commencement of lease for each lease in place in 1 July 2019 will be significant with limited benefit.
C10a	A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment	**Allow councils to use this expedient but not mandate it.**	Not mandated as councils will be using different discount rates and therefore it is not a consistent issue.
C10b	A lessee may rely on its assessment of whether leases are onerous applying AASB 137 immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application	**Mandate the use of this exemption**	Councils are not expected to have onerous leases, however for consistency and ease this is mandated as the AASB 137 provision would be a reasonable proxy for the impairment of the right-of-use asset.
C10c	A lessee may elect not to apply the requirements in AASB 16 to leases for which the lease term ends within 12 months of the date of initial application. In this case, a lessee shall: i. account for those leases in the same way as short-term leases; and ii. include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.	**Mandate the use of this exemption**	When leases expire within 12 months from 1 July 2019, the cost to restate them would be significant compared to the benefit to the users of the financial statements. Preference would be to focus on the leases which extend beyond 30 June 2020 rather than those which will have expired by 30 June 2020.
C10d	A lessee may exclude initial	**Do not allow the use of**	Given that the expedient

	direct costs from the measurement of the right-of-use asset at the date of initial application.	**this practical exemption.**	in C8b is recommended to be mandated, this expedient is not relevant and therefore if its use is prohibited then it will avoid confusion.
C10e	A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.	**Mandate the use of this practical expedient.**	This expedient will allow councils to apply known factors to the lease accounting rather than trying to determine what the answer would have been at the time of the lease commencement and will provide information that is more meaningful to the users.
C11	For leases which were previously classified as finance leases , the carrying amount of the right of use asset and the lease liability at the date of initial adoption is the carrying amount of the lease asset and lease liability immediately prior to the date of adoption under AASB 117.	**Whilst not strictly a choice, included for completeness.**	Existing balances for finance lease at 30 June 2019 will be opening balances for AASB 16 at 1 July 2019. These balances will then be subject to AASB 16 on an ongoing basis.
Aus 25.1	Where the lessee is a not-for-profit entity, the lessee may elect to measure right-of-use assets on a class-by-class basis at initial recognition at fair value in accordance with AASB13 Fair Value Measurement for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives.	**Recommend but not mandate that Councils do not measure right of use assets at fair value for leases in place at transition date (being 1 July 2019).**	Measuring the fair value of the right of use assets on 1 July 2019 for existing peppercorn (and other leases below market value) is challenging due to the lack of guidance on this subject. OLG recommend council choose to hold these assets at cost until such time that the AASB release guidance and lift the temporary deferral. Any Council who has previously recognised right of use asset at fair value is able to continue to recognise the asset on this basis.
Ongoing options			
4	A lessee may, but is not required to, apply this Standard to leases of intangible assets other than those described in paragraph 3(e)	**Mandate that councils do not apply AASB 16 to leases of intangible assets**	Councils will not have to spend time determining whether agreements in place over the use of an intangible asset meets the definition of a lease.
5	A lessee may elect not to apply the requirements of AASB 16 to short-term leases	**Mandate that councils make this election for all leases, which qualify as short-term.**	The cost of applying AASB 16 is significant and given the short nature of these leases (less than 12 months) – the cost of the accounting is considered to exceed the benefits.
5	A lessee may elect not to apply the requirements of AASB 16 to leases for which the underlying asset is of low value	**Mandate that councils make this election for all leases where the underlying asset is of low value.**	The cost of applying AASB 16 is significant and given the number of leases in place at councils, the preference would be to focus on

		OLG will provide guidance on the threshold for low value assets to be in the region of $7,000 - $10,000 but no higher than $10,000.	putting time and effort into getting the non-low value asset leases correct and take advantage of the exemption in the standard for the low-value assets. Note that low-value threshold will be consistent across all councils, as it is not related to materiality.
15	A lessee may elect, by class of underlying asset, not to separate non-lease components from lease components and instead account for each lease component and any associated non-lease component as a single lease component. [E.g. cleaning / security services on a building lease]	**Permit councils to use this practical expedient but not mandate its use.** **We note that where expenses are based on sales or usage, such as utilities charges on a building, then this would be accounted for on an as incurred basis and therefore not be included as part of the lease liability.**	Whilst this practical expedient may result in an overstated right to use and lease liability, given that it is an option permitted in the standard – the cost of separating the lease and non-lease components is considered to exceed the benefit to the users. However, Councils are permitted to choose to separate the lease and non-lease components where the non-lease component is significant – this choice is made on a class of underlying asset basis.
29	Subsequent to initial recognition, a lessee shall measure the right-of-use asset applying cost or fair value under AASB 116 or AASB 140.	**Mandate that the right-of-use asset is exempt from the fair value requirement and allow councils to carry this asset at cost.**	The right-of-use asset is in substance an intangible asset and the revaluation exercise would be costly and comprise of significant estimation. Whilst the tangible assets of councils are required to be held at fair value, there is no reason to apply the same requirement to right-of-use assets. The right of use would be presented as a separate class of asset and therefore it would not affect any other assets.
47	Lessee shall present in the statement of financial position or in the notes - Right of use assets separately from other assets - Lease liabilities separately from other liabilities.	**Present right-of-use assets and lease liabilities as a separate line item on the face of the statement of financial position.**	These line items are likely to be material and therefore the information is more meaningful to the users if they are presented separately rather than being lost in the notes to the financial statements.
50	Lessee should classify cash payments for the interest portion of the lease liability applying the requirements of AASB 107, i.e. as operating, financing or investing.	**Continue to mandate interest paid to be shown as operating cash flows.** **Note the IASB has a project to mandate the presentation of**	Consistency with existing AASB 107 OLG mandate.

		interest and if a standard is issued then this may affect the presentation prior to adoption of AASB 16.	

Note that the following are not mandated by OLG, as they will depend on the Council's transactions and balances and relate more to judgements rather than accounting policy choices:

- Identifying whether a contract meets the definition of a lease.
- Where it is reasonably certain that an option included in a lease will be exercised.
- Whether a lease modification is a separate lease or a modification to the existing lease
- Whether a lessor classifies a lease as operating or finance.
- Whether a lessor recognises rental income on a straight-line basis or other systematic basis – although likely to recommend straight-line unless evidence of another basis provides information that is more useful to the users.

NSW Treasury Guidance

NSW Treasury has developed the below guidance in relation to the Accounting Standards. The documents were written by NSW Treasury for State Agencies and Departments. The primary audience was not NSW councils, nor council related entities, however the NSW Office of Local Government believe that the content could be a useful resource for NSW councils. Comments have been provided by OLG throughout the guidance in **Bold Red.**

- Guidance for AASB 16 Leases

Guidance

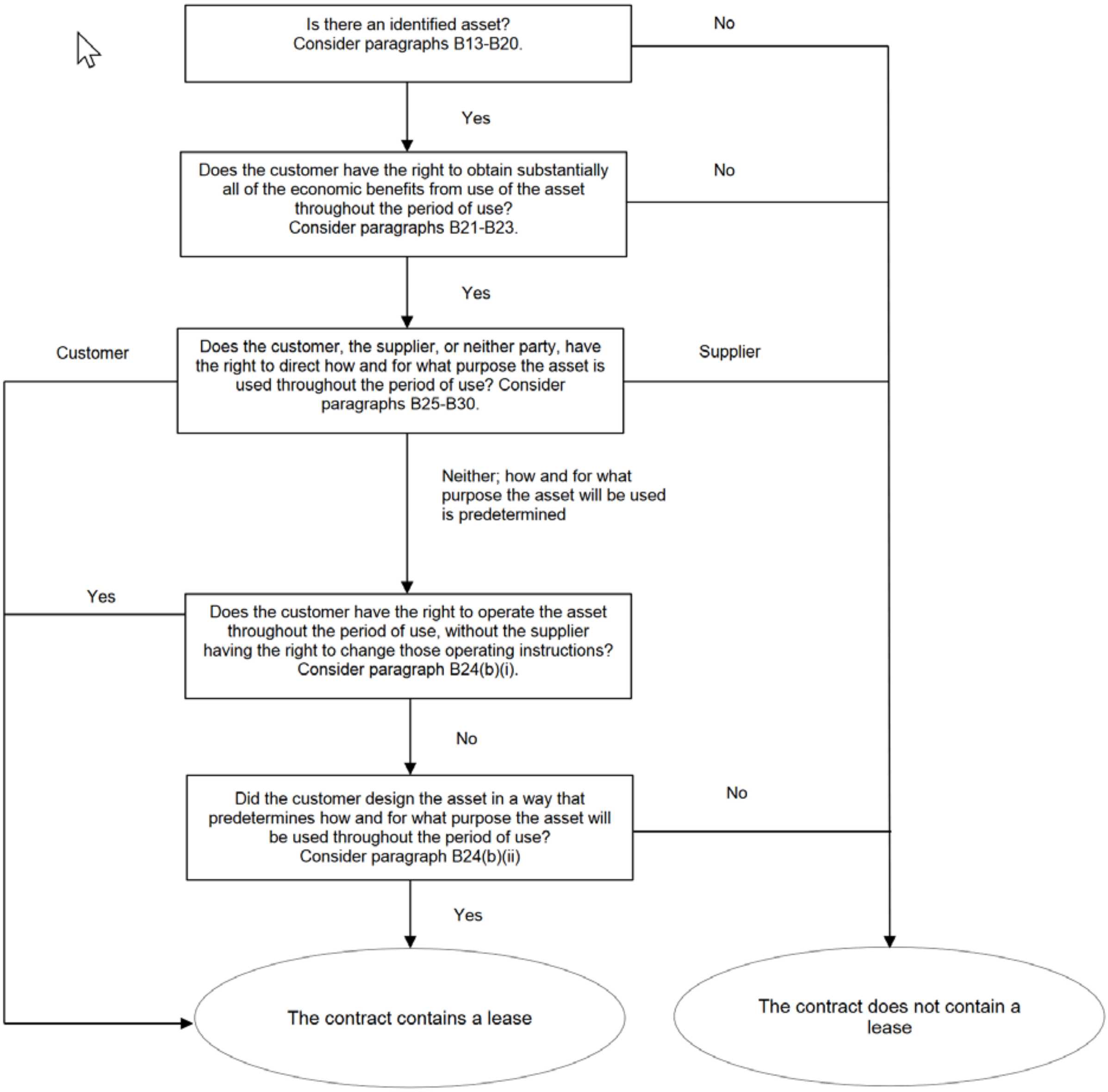
The common areas of concern with AASB 16 are:

Identifying leases	Separating lease and non-lease components
Lease term	Concessionary / peppercorn leases

Identifying leases
Councils have to assess all agreements in place with suppliers to determine whether they are (or contain) a lease. Regardless of the legal form of the agreement or the name of the agreement, there may be an embedded lease, Councils should consider all agreements including:

- Waste management agreements (potential lease over rubbish trucks)
- IT outsourcing agreements (potential lease over servers)
- Usage agreements (potential lease over the asset that Council are using, e.g. pipelines, equipment)
- Maintenance agreements (potential lease over vehicles, plant and equipment).

The decision tree from AASB 16, reproduced below may provide assistance to Councils in their assessment. Councils should document their assessment of agreements in place at 1 July 2019 and implement a process to identify new agreements which may contain leases on an ongoing basis.



Separating lease and non-lease components

Where the contract contains a lease and an agreement to purchase other goods or services (non-lease components – e.g. maintenance, security, use of common areas) then Council has a choice on a class of assets basis to:

- separate the non-lease and lease components and account for them separately. The consideration is allocated between the lease and non-lease components on the basis of their stand-alone selling prices or
- account for each separate lease component of a contract and any associated non-lease components as a single lease component.

Example in relation to Waste contracts and separating lease and non-lease components

Council has entered into a 15 year contract on 1 July 2XXX (after AASB 16 transition date) with Wasteful Industries for the collection of all waste.

The contract specifies that 15 vehicles (of certain specifications) are required and the vehicles must be covered in Council's agreed signage and used only for the Council contract. The contract specifies the route, days and time for rubbish collection. The initial costs incurred by Council in setting up the contract were $3,300.

The waste management services will be delivered for a fixed monthly cost of $270,000 payable each month.

The contract cost will increase by CPI on the 3rd, 6th, 9th and 12th anniversary of the contract.

Assume that the useful life of the vehicles is 15 years.

Council's incremental borrowing rate is 4%.

The purchase price of the vehicles specified in the contract is approximately $400,000.

Analysis

The vehicles meet the definition of an identified asset, Council has substantively all of the economic benefits of the vehicles and has the ability to direct the use of them – the agreement contains an embedded lease over the vehicles.

Scenario 1 – Council chooses to separate the lease and non-lease components in the agreement

The agreement does not provide the breakdown between the cost paid to lease the vehicles and the non-lease costs and therefore Council needs to estimate the price of the two components.

Based on the lease term, NPV of the leased vehicles and the incremental borrowing costs of Councils they estimate the monthly lease component of the total payment to be $44,381 and the service component to be $225,619.

			Income statement	**Balance sheet**
	Dr:	**Cr**	**$**	**$**
Initial entries				
ROU asset – non-current (lease liability plus prepaid rent)	5,924,702			
Lease liability		5,921,402		
Cash (initial costs)		3,300		
Balances at 1 July 2XXX				
ROU			-	5,924,702
Lease liability			-	(5,921,402)
Month 1				
Journals:				
Interest expense	19,738			
Lease liability	24,643			
Waste management services (income statement expense)	225,619			
Bank		270,000		
To record monthly payment				
Depreciation expense	32,915			
Accumulated depreciation		32,915		
To record depreciation of ROU				
Balances at end of month 1				
ROU			-	5,891,787
Lease liability			-	(5,896,760)
Depreciation expense			(32,915)	
Interest expense			(19,738)	
Waste management services expense			(225,619)	

The journals are booked each month based on the initial calculations at day 1 until the end of Year 3 when a 3% CPI increase becomes effective. At this time the lease liability is recalculated since the payments have increased.

The new monthly lease payment is $45,712 and the service component is $232,388 – the remeasured lease liability is $5,148,189.

Lease liability prior to remeasurement was $4,980,494 and therefore the increased liability is $112,413.

Journal is Dr: ROU asset = $112,413, Cr: Lease liability $112,413 Interest charges and depreciation will be adjusted based on new balances.

Scenario 2 – Council chooses NOT to separate the lease and non-lease components in the agreement

Council has chosen not to separate the lease and non-lease components – OLG permits this election on a class of asset basis.

The lease liability and right of use asset is based on the total monthly payment of $270,000.

			Income statement	**Balance sheet**
	Dr:	**Cr**	**$**	**$**
Initial entries				
ROU asset – non-current (lease liability plus initial costs)	36,027,240			
Lease liability		36,023,940		
Balances at 1 July 2019				
ROU				36,027,240
Lease liability				(36,023,940)
Monthly depreciation would be $200,151 and interest in month 1 would be $120,080 with a nil charge for waste management expense.				

Lease term

In considering lease term – Councils should apply the definition of a contract and determine the period for which the contract is enforceable

- A lease is no longer enforceable **when the lessee and the lessor each has the right to terminate the lease** without permission from the other party with no more than an insignificant penalty (likely to be the case if there is no formal lease agreement or the lease is on a month-to-month arrangement)
- If **only a lessee has the right to terminate a lease**, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term
- If **only a lessor has the right to terminate a lease**, the non-cancellable period of the lease includes the period covered by the option to terminate the lease.

Concessionary / peppercorn leases

AASB 2018 – 8 A*mendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* provides a **temporary** option for not-for-profit lessees to elect to measure a class (or classes) of right-of-use (ROU) assets arising under 'concessionary leases' at initial recognition, either:

- at cost, which incorporates the amount of the initial measurement of the lease liability; or
- at fair value.

Concessionary leases in this context are leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives.

OLG recommend but have not mandated that Councils use the cost option for recording the right of use asset relating to concessionary / peppercorn leases on transition. This means that the asset value is based on the lease liability which is unlikely to be material. On an ongoing basis the right of use asset is measured at cost under the OLG mandate.

Disclosures relating to Council's dependence on concessionary / peppercorn leases and the nature, terms and conditions are required and are included in the Code.

For peppercorn / concessionary leases, Councils should consider the substance of the arrangement and related transactions – refer example below

Example – Contribution to community facilities in return for right of use

Background information

In 2XXX (after commencement of AASB 16). Council entered into a contract with a local school for use of part of the school facilities –Council has 90% of the use of a changing room and cafeteria, the school can use it for the remaining time.

Annual rent is $1 and Council contributed $10m to the construction of the changing rooms and a cafeteria on the site as a condition of the lease.

Lease period is 10 years.

There is an identified asset which is the changing rooms and cafeteria, the Council have substantially all the economic benefits since they have use for 90% of available time and they can decide how to use the facilities i.e. functions, who is using the changing rooms etc.

In substance, the payment of $10m was a prepayment of the lease since the school will get the facilities at the end of 10 years and therefore the lease isn't necessarily a concessionary lease.

			Income statement	**Balance sheet**
	Dr: $	**Cr $**	**$**	**$**
Initial entries				
ROU asset – non-current (lease liability plus prepaid rent)	10m			
Lease liability		-		
Cash		10m		
Balances at day 1 of the lease				
ROU				10m
Lease liability				
Years 1 – 10 of the lease				
Depreciation	1m			
Accumulated depreciation		1m		
The $1 per year for the land would be deemed not material and therefore no entries are booked relating to this.				

Specific transition guidance

Councils are required to apply the modified transition approach and therefore the initial impact will be:

- For operating leases in place at 1 July 2019:
  - Remaining lease term greater than 12 months? If yes then move to next step, if no then continue to account for the expense through income statement with no statement of financial position impact
  - Do the underlying assets to which the lease relates have a value when new of greater than $10,000? If yes, then move to next step, if no then then continue to account for the expense through income statement with no statement of financial position impact
  - Recognise leases in the statement of financial position – calculate lease liability based on the net present value of the remaining lease payments and record the right of use asset at the same value (adjusted for any prepaid or accrued lease payments at 30 June 2019).
- For finance leases in place at 1 July 2019, the existing balances should be reclassified but not adjusted, i.e. the asset will currently be shown in the relevant PPE class whereas on 1 July 2019 it will be reclassified to Right of Use asset and the finance lease liability will be reclassified to lease liability.

Transition example

Background:

- Councils enters operating lease for exclusive use of a building on 1 July 2016
- Payment is fixed at $100,000 per annum – payable on 30 June
- Council incremental borrowing rate = 4.5%
- Lease term is from 1 July 2016 – 30 June 2026.

Agreement contains a lease since Council has the right to control the use of an identified asset for a period of time in exchange for consideration.

			Income statement	Balance sheet
	Dr:	Cr	$	$
Transition journals – 1 July 2019				
ROU asset – non-current	589,270			
Lease liability		589,270		
Balances at 1 July 2019				
ROU			-	589,270
Lease liability			-	(589,270)
Year ended 30 June 2020				
Journals:				
Interest expense	26,517			
Lease liability	73,463			
Bank		100,000		
To record annual payment				
Depreciation expense	84,181			
Accumulated depreciation		84,181		
To record depreciation of ROU				
Balances at 30 June 2020				
ROU			-	505,089
Lease liability			-	(515,807)
Depreciation expense			(84,181)	
Interest expense			(26,517)	
Year ended 30 June 2021				
Journals:				
Interest expense	23,210			
Lease liability	76,790			
Bank		100,000		
To record annual payment				
Depreciation expense	84,181			
Accumulated depreciation		84,181		
To record depreciation of ROU				
Balances at 30 June 2021				
ROU			-	420,908
Lease liability			-	(439,017)
Depreciation expense			(84,181)	
Interest expense			(23,210)	

Appendix L
New standards adopted during the year ended 30 June 2020

The following new standards are effective for the first time at 30 June 2020.

- Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017 – 4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements Cycle 2015 – 2017 Cycle
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments [AASB 1, AASB 128, AASB 140]
- AASB 15 Revenue from contracts with customers
- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15
- AASB 2015–8 Amendments to Australian Accounting Standards – Effective date of AASB 15
- AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15
- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for NFP entities
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for NFP entities
- AASB 2018-8 Amendments to Australian Accounting Standards – Right of Use Assets of Not-for-Profit Entities
- AASB 2018-4 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors
- AASB 1058 Income of NFP Entities
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
- Interpretation 22 Foreign Currency Transactions and Advance Consideration
- AASB 16 Leases
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement [AASB 119]
- AASB 2018-3 – Amendments to Australian Accounting Standards – Reduced Disclosure Requirements
- AASB 2018-5 Amendments to Australian Accounting Standards – Deferral of AASB 1059.

The adoption of AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-profit Entities and AASB 16 Leases are likely to have a significant impact on Council's financial position and performance. Councils should refer to Note 18 in the general purpose financial statements for an example change in accounting policy note. Appendix J contains guidance on AASB 15 and AASB 1058 and Appendix K has guidance on AASB 16. The OLG Accounting Practice page (https://www.olg.nsw.gov.au/strengthening-local-government/supporting-and-advising-councils/accounting-practice) has additional resources available to Council in relation to these standards.

Appendix M
Standards issued not yet effective

AASB 108.30 requires a council to include information about relevant standards which have been issued by the AASB, but which will not be effective at 30 June 2020.

In complying with Paragraph 30 above, a council shall consider disclosing:

- the title of the new Australian Accounting Standard
- 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 council's financial statements; or
  - if that impact is not known or reasonably estimable, a statement to that effect.

The information below provides details of standards which we believe will be relevant to councils, and illustrative disclosures about their expected impact.

This information is up-to-date at the date of writing (October 2019). However, councils are required to review the AASB website for standards issued between October 2019 and the date of approval of their financial statements for other relevant standards.

The information below considers the most common scenarios for councils, however councils are required to assess the impact of each standard which is relevant to them.

Pronouncement	AASB 1059 *Service Concession Arrangements: Grantors* AASB 2018–5 *Amendments to Australian Accounting Standards - Deferral of AASB 1059* AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059*
Nature of change in accounting policy	This standard provides guidance for public sector entities (grantors) who have entered into service concession arrangements with private sector operators. AASB 1059 requires grantors to recognise a service concession asset and, in most cases, a corresponding liability on the balance sheet. A control approach is used to assess the service concession arrangements in place. On initial recognition the asset is measured at current replacement cost based on AASB 13 *Fair Value Measurement* and existing assets of the grantors are reclassified at the date of transition. After initial recognition, the grantor accounts for the assets under either AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets.* The nature of the consideration given to the operator will affect whether the grantor applies either the 'financial liability' or the 'grant of right' model for the recognition of the liability. AASB 2019-2 makes amendments to the recognition and measurement of the asset and liability where the modified retrospective approach to transition is being used and provides a practical expedient due to the different effective dates of AASB 16 and AASB 1059.
Effective date	Annual reporting period beginning on or after 1 January 2020 (i.e. year ended 30 June 2021).
Expected impact on council financial statements	We do not expect an impact for councils since they do not generally enter into service concession arrangements. If any council is aware of an arrangement which may meet the definition of a service concession arrangement, then they should speak to their OLG / auditors as soon as possible.

Pronouncement	AASB2014-10 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.AASB2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*. AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*
Nature of change in accounting policy	The amendments address an acknowledged inconsistency between the requirements in AASB10, and those in AASB128 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. AASB2015-10 has delayed the effective date of this standard. AASB 2017-5 defers the effective date of AASB 2014-10 to 1 January 2022
Effective date	Annual reporting periods beginning on or after 1 January 2022; i.e. councils' financial statements for the year ended 30 June 2023.
Expected impact on council financial statements ***(INDICATIVE WORDING ONLY – COUNCILS SHOULD INSERT INFORMATION RELEVANT TO THEM***	This will only impact on councils with associates or joint ventures where there has been a sale or contribution of assets between the entity and its investor. If a council does not have an associate or joint venture, then this standard should not be included in the note. If a council has made or anticipates making a sale or contribution with its joint venture or associate, then the impact should be documented.

The following pronouncements are issued but not yet effective and are not expected to have relevance to councils but have been included for completeness:

AASB 17 *Insurance Contracts* and associated amendments	Annual reporting periods beginning on or after 1 January 2021	Changes to insurance accounting
AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a business*	Annual reporting periods beginning on or after 1 January 2020	Changes to definition of a business may affect whether an acquisition is an asset acquisition or purchase of a business.
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	Annual reporting periods beginning on or after 1 January 2020	Changes to definition of materiality to refer to obscuring material information
AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*	Annual reporting periods beginning on or after 1 January 2020	Modifications to hedge accounting requirements to assist with the uncertainty arising from the interest rate benchmark reform
AASB 2019 – 5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	Annual reporting periods beginning on or after 1 January 2020	Clarifies that entities providing IFRS compliance statement should include standards issued by the IASB but which have not yet been issued in Australia as part of the standards issued not yet effective disclosure
AASB 2019 – 7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP / GFS Reconciliations*	Annual reporting periods beginning on or after 1 January 2020	Amends AASB 1049 to provide relief in general government sector and whole of government financial statements from disclosure of certain key fiscal aggregates.

Appendix N
Significant changes to 2020/21 Code due to accounting standards changes

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The standards effective for the first time at 30 June 2021 are not expected to have a significant impact on Council's reported financial position or performance, except those Councils who have service concession arrangements.