

**Frequently Asked Questions
Facilitated Implementation Discussions on
AASB 15 *Revenue from Contracts with Customers*,
AASB 1058 *Income of Not for Profit Entities* and
AASB 16 *Leases***

DISCLAIMER:

The questions and answers below are for general information only and not specific advice to councils. Councils should not rely on the contents of this document without first obtaining advice from a qualified professional person or referencing source material such as accounting standards. Nevertheless, all care has been taken in preparing this information.

Revenue

Q – Is there a materiality threshold for grant revenue?

A – There is no equivalent to the leases of low value assets threshold in the revenue standards, however when councils are considering which agreements to focus on, consider the following:

- Many common revenue streams have been reviewed by the Office of Local Government (OLG) and the analysis can be accessed on Objective Connect – contact code@olg.nsw.gov.au for access.
- If a grant is only for the financial year (i.e. funds received, spent and all work completed in the same financial year) the revenue recognition methodology is not relevant.
- For very small grants, consider the revenue of these in aggregate and if not material, council should determine a methodology that is simple to apply. If the aggregate is a material amount, consider whether the population of grants can be aggregated, and a methodology applied to the sub-sets of the population.

A pragmatic approach should be applied. Discussions with your auditors are encouraged as early as possible, rather than council finance staff spending a significant amount of time reviewing hundreds of small grant agreements.

Q- What is a contract asset?

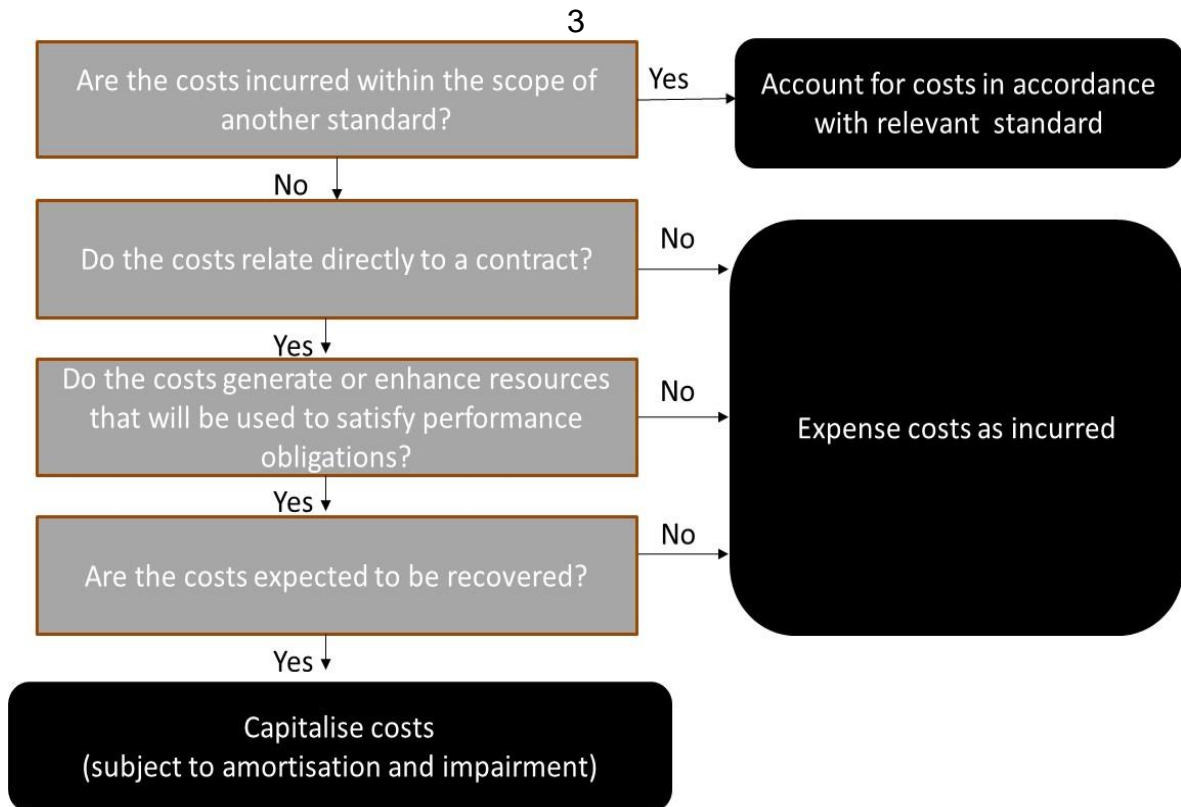
A – A contract asset is the equivalent of work in progress or accrued income. Council has performed the work and believes that the costs expended are recoverable, however an invoice has not yet been raised. Therefore, the amounts cannot be classified as a receivable, although it is assessed for impairment using the Expected Credit Loss model in AASB 9

Note: The Code of Accounting Practice and Financial Auditing (Code) utilises the terminology of contract assets from the accounting standards – these terms are not mandatory. If councils choose to use different terminology, the chosen terminology should be used throughout the councils financial statements and their accounting policy should define the terms used.

Q – What is a contract cost asset?

A- A contract cost asset is where either incremental costs to obtain a contract or costs to fulfil a contract have been capitalised as an asset to record them through the income statement on a basis consistent with the related revenue in accordance with paragraphs 91 – 104 of AASB 15.

Councils are not expected to have significant costs to obtain contracts however the costs to fulfil a contract may be significant. These costs are capitalised if they meet the following criteria:



Q – If council may not be able to fulfil commitments under grant agreements, what is the accounting treatment?

A – This depends on the initial treatment of the grant:

- If the grant was within the scope of AASB 1058, the revenue would have been recognised on receipt. Until a liability to repay the funds crystallises, there will be no change – at the date the council is notified they have a liability, then an expense would be charged to the Income Statement.
- If the grant was within the scope of AASB 15, the revenue is not recognised until the performance obligations are met and therefore there would be no reversal of revenue. If council is notified that a liability has crystallised, the accounting journal would be to transfer an amount from the contract liability (income received in advance) to a financial liability, such as a payable.

Q - Note 3 Revenue – Accounting Code: Explain the necessity to report income twice in different formats?

A – AASB 15 and AASB 1058 introduced additional disclosure requirements including the need to disaggregate revenue to allow users to better understand the risks and methodology. The additional disaggregation to show whether revenue is recognised at a point in time or over time is not considered an onerous requirement. Council would have this information as part of recording revenue, and it provides additional information in accordance with the requirements of the

standard. We note that the format of the disaggregation note changed from the draft code based on feedback from stakeholders.

Transition (i.e. 1 July 2019)

Q – With treatment of Grants that have been recognised as income upon receipt in 2019, but still had performance obligations outstanding as at year end 2019, do councils need to restate the 2019 income and liabilities in the 2020 financial statement, or should we ignore these?

A – Where there are still performance obligations outstanding at 1 July 2019 then council is required to restate the contract. The example below illustrates this:

Example – Council receives grant of \$4m to perform sufficiently specific services under an enforceable contract over a period from 30 June 2018 – 31 December 2020

The grant is considered in the scope of AASB 15 and the performance obligations are satisfied equally over the term of the grant.

Cash receipts: \$1m at 30 June 2018, \$3m at 30 June 2019

Under AASB 1004 - revenue was recognised on receipt of cash – there are no restatements of these figures at 30 June 2019.

30 June 2018 Dr: Cash \$1m, Cr: Revenue \$1m

30 June 2019 Dr: Cash \$3m, Cr: Revenue \$3m

Restate completed contracts (mandated by OLG)	DO NOT restate completed contracts (for comparison only)
18 months of obligations remaining (\$2.4m of \$4m revenue)	No adjustment on adoption of new standards
At 1 July 2019: Dr: Retained earnings \$2.4m Cr: Contract liability \$2.4m Recognise \$2.4m revenue as remaining obligations are met between 1 July 2019 and 31 December 2020	Expenses incurred in later reporting period – no 'matching'

The reason that the restatement is required by OLG is to allow the matching of revenue and expenses which better reflects the transaction rather than the alternative (right hand column of the table) which would continue to recognise revenue in one period and expenses in a different one.

Revenue streams**Q – Can you confirm whether accounting for rates has changed under the new standards?**

A - Under AASB 1004, council was required to recognise rates revenue at the earlier of the date of receipt and beginning of the rating period which means that prepaid rates were taken to revenue in the year of receipt.

Under AASB 1058 and associated amendments to AASB 9, prepaid rates are recorded as a liability until the beginning of the rating period and are recognised as revenue on 1 July of the relevant rating year.

Q – Can you provide some advice on the accounting for development applications? (Answer based on analysis below)

Council believes there is an enforceable contract between the customer and council (if the development application does not go-ahead, council will refund the amount paid). There are performance obligations in that council must decide on their application. Council believe the income should be recognised under AASB15, which means council should recognise the revenue as council satisfies the performance obligation.

A – Given that a service is being purchased when a development application is submitted (which is enforceable and sufficiently specific), it would fall in the scope of AASB 15. This standard requires council to determine how and when control of the good / services is transferred to the customer. In the case of the development applications, this occurs when the outcome of the application is provided to the applicant and therefore the revenue should be recognised at this date. If refunds are provided if the application is not successful, then no revenue will be recognised until the application is successful.

Q – Has the treatment for developer contributions changed under the new revenue standards?

A - Developer contributions generally do not meet the criteria to be within the scope of AASB 15 since they are not enforceable (i.e. the developer is not entitled to a refund from Council nor can they require Council to only spend the funds on a particular item) and therefore developer contributions will be accounted for under AASB 1058.

On receipt of the contribution (or the receivable, if earlier), council will recognise the revenue – this treatment should be consistent with the existing treatment applied by councils.

Q – How do we treat financial assistance grants (FAGs) on transition to AASB 15 / AASB 1058?

The accounting treatment for financial assistance grants under the new revenue standards is the same as the existing treatment. Recognition of revenue on receipt of the funds and therefore there is no adjustment at 1 July 2019 for these grants.

Q's – What is the accounting treatment for revenue in relation to the LIRS scheme?

How do we account for the block funding received from NSW Roads and Maritime Service?

Is there a way for council to ensure consistency of accounting for grants such as Roads to Recovery that are received by several councils?

A – These agreements have been analysed. Revenue accounting has been determined by OLG and discussed with NSW Audit Office – this information is available on the OLG Objective Connect site, please contact code@olg.nsw.gov.au if you require access.

Q – How should we account for the Bushfire funding?

A – The bushfire funding is currently being reviewed by OLG and will be added to the Objective Connect site once completed.

Q- How do we account for reduced fees if they have been lowered in response to COVID- 19?

A – Where fees have been lowered, income would be recorded in the income statement in accordance with the relevant accounting standard.

If the fees have been deferred, then the total consideration should only be recognised to the extent that council believe the collection is probable.

Capital grants

Q – What is the accounting treatment where a capital grant meets the assets controlled by the entity exception in AASB 1058

A – The assets controlled by the entity exception (AASB 1058 paragraphs 15 – 18) may be relevant for councils who receive money for capital purposes. The criteria for using this exception are shown in the diagram below and includes the associated accounting journal entries.

Requires the entity to use the financial asset to acquire or construct non-financial asset to identified specifications

Does not require the entity to transfer a financial asset, good or service to the transferor

Obliges the entity to refund amounts (or other enforcement mechanism) if the financial asset is not applied in accordance with the terms of the transfer

Where money received in advance	Where money received after Council has spent funds
<p><i>On receipt of funds</i></p> <p>Dr: Cash Cr: Contract liability</p> <p><i>When asset constructed or acquired</i></p> <p>Dr: Contract liability Dr: Capital WIP Cr: Cash Cr: Revenue</p> <p><i>On completion of the asset</i></p> <p>Dr: IPPE Cr: Capital WIP</p>	<p><i>When funds spent</i></p> <p>Dr: Contract asset Dr: Capital WIP Cr: Cash Cr: Revenue</p> <p><i>When invoice raised</i></p> <p>Dr: Receivable Cr: Contract asset</p> <p><i>On completion of the asset</i></p> <p>Dr: IPPE Cr: Capital WIP</p>

Note: This treatment is only where the criteria shown are met and not for all capital grants received by Council.

Q – Where a capital grant meets the exception within AASB 1058 for assets controlled by council, how and when is revenue recognised?

A - For a capital grant to meet this exception, council has been given funds to acquire or construct a non-financial asset (generally IPPE) which they will control (i.e. will be on council's books).

If council are being paid to construct an asset, this will be on land controlled by the council and therefore, as the asset is being constructed, council is receiving the benefit. Revenue would be recognised on an appropriate basis (costs incurred, labour hours expended, Quantity Surveyor reports) during the construction phase.

If council is being paid to acquire an asset, the revenue is recognised on settlement date of the asset purchase.

Q – Council is being paid by the State to build an asset (funded by private developers) which is going to be decommissioned in 30 years. How is the revenue accounted for?

A - The revenue recognition depends on the arrangement:

- If the asset is to be controlled by council, the agreement is enforceable and there is no requirement to transfer the asset to another party then it would meet the exception in AASB 1058 and would be accounted for per the question previous.
- If the asset is not to be controlled by council and it is in substance a construction contract, then council will need to work through the requirements of AASB 15 paragraph 35 to determine whether control is being transferred to the customer at a point in time (when the asset is completed) or over time (during the course of construction).

Q - If a grant agreement does not allow council to retain the asset that we are constructing using grant funds for own use until five years after completion (i.e. we can't demolish, eradicate, sell, convert or dispose of the asset for five years after completion without the written consent of the funding body) does that mean revenue will need to be recognised over time to match the stage of completion of the asset and related performance obligations, in accordance with AASB 15?

A - The answer to this depends on whether council is deemed to control the asset, i.e. once complete will the asset be recorded on councils fixed asset register or will Council not obtain control until after 5 years?

Although the asset cannot be dismantled or sold etc for 5 years, it is likely that this is a protective right by the fund provider. Council are deemed to have accounting control of the asset.

If this is the case, then the asset may meet the exceptions for assets controlled by the entity in AASB 1058 and recognise revenue as construction takes place.

If council do not control the asset, it is a construction contract where the asset is transferred to another party and revenue will be recognised in accordance with AASB 15.

Volunteer services

Q – When do we recognise volunteer services?

A – There is no change under AASB 1058 for volunteer services except an additional disclosure as per the Accounting Code. Volunteer services are required to be recognised by councils where the following criteria are met:

- Volunteer services can be reliably measured;
- The services would be purchased if they were not donated; and
- The value would be material.

Q – We have a volunteer committee running our football/netball clubs and the only income we generate is hire of the stadium, which is a minor amount in relation our overall revenue - would this be immaterial?

A – The volunteer services should be assessed for materiality in relation to overall council operations rather than the revenue generated by the stadium.

Scenarios

Q – Council has management of a crown reserve which is licenced as a golf course to the local club. The licence document was signed by the Crown in 2014 for an area of 36.12 ha for an initial rent of \$500.00 p.a. with a review period of 3 years. The rent is to be paid to the Minister.

Council's belief is that as the terms of the licence expressly states that the rent is to be paid to the Minister, that council would not have to report this licence as income.

A – If council is not a party to the agreement and the licence fee is paid directly to the Minister, it would seem unlikely that the revenue should be recognised in council's books.

In respect of the management of the crown reserve, council should consider whether they have control of the reserve and if so, recognise the land within IPPE or right of use asset as appropriate.

Q - Should contributions from RFS for reimbursement of maintenance of RFS fleet be treated as agency relationships where council is an agent?

A – This depends on the substance of the transaction. If RFS engage a supplier to complete the maintenance of the fleet and council receive the money from RFS only to pass it through to the supplier, then council would not recognise the revenue as they are acting as an agent.

Yet, if council are being paid to maintain the fleet, then the revenue would be recognised by council in accordance with the relevant accounting standard.

Q - In a funding agreement with the NSW EPA and council, the EPA has agreed to supply funding for council to implement a range of activities to reduce the littering of cigarette butts. The agreement includes particular strategies for reducing cigarette butt littering that will be funded by the Grant (and the activities involved in implementing each strategy). Council is not obliged to carry out all strategies. Although the estimated timeframe and hours involved are specified, the agreement is vague about the quantity of the activities to be undertaken with each strategy implemented.

Does this agreement create sufficiently specific obligations for council?

A – Based on the information provided and the fact that council can choose the activities to be performed in order to reduce the littering, the performance obligations do not appear to be sufficiently specific. Therefore, it is likely that the funding agreement would fall within the scope of AASB 1058.

Q - How specific is sufficiently specific? We have a grant to purchase emergency signage. The grant agreement does not specify how the signage is to be used. The agreement states that ‘The Final Report’ must include:

- details on achievement of Project milestones as outlined in your approved application;
- details on the final Project output/outcomes including details on Project design and ongoing commitment as outlined in your application;
- Project materials (e.g. photographs, promotional material); and
- All other supporting documentation as requested.’

The application for this grant states ‘the signage is for use across the Shire in times of emergency, including, but not limited to, bushfire danger periods, or hazards, flood warnings and closures, bridge failures, to provided immediate advice to residents and commuters.’

Council has used the signs for event-based information which aren’t related to emergencies. Given that the standards state that the entity’s performance must not create an asset with an alternative use to the entity (i.e. an asset has an alternative use if an entity can redirect the asset for another use or to another customer (AASB 15.B6)).

Does this alternative use mean that the income must be recognised under AASB15 at a point in time?

A – The accounting treatment for this grant depends on the reason the funding is being provided. The grant appears to be for the purchase of emergency signs which will then be controlled by council.

If this is the case, then it is likely that the grant will meet the assets controlled by the entity exception within AASB 1058 and recognise revenue when the signage is acquired.

Leases

Embedded leases

Q – Will an agreement for supply of internet services meet the definition of a lease?

A – Service agreement will need to be reviewed to determine what is being included. For example, if there is the use of dedicated server or fibre optic cables which are only available for council use, there may be an embedded lease within the agreement.

Q – What is the accounting treatment with arrangements for street lighting?

A – Councils need to consider whether the arrangements in place meet the definition of a lease under AASB 16. If so, then AASB 16 accounting will be applied.

Short term and leases of low value asset exceptions

Q – What is the maximum term allowed to be able to classify as lease as short-term?

A – AASB 16 defines a short-term lease as one which has a lease term of 12 months or less at the commencement date.

Q –What is the limit for the leases of low value assets exception in AASB 16?

A – In OLG's guidance to councils on transitioning, OLG mandates the council low value asset threshold to be in the region of \$7,000 - \$10,000, but no more than \$10,000. [Click here for further guidance.](#)

Waste management contracts

Q- How do we account for waste management agreements and do they contain a lease?

A – Some of the waste management agreements may contain a lease, two agreements have been analysed by OLG and they are available on Objective Connect (contact code@olg.nsw.gov.au for access).

If an embedded lease exists then council will need to consider the other terms in the agreement, for example:

- Are the payments 100% variable depending on the number of bins collected with no minimum payment?
- Are the assets covered by the lease low value?
- Do council want to separate lease and non-lease components?
- What would be the payments if just the assets covered by lease were rented?

Q – Can you confirm the treatment of rubbish bins within the waste contracts?

A – If the rubbish bins are considered an embedded lease, they would meet the criteria for a low value asset and therefore, no right of use asset or lease liability is recorded. Disclosure of the expense would be required if considered material.

Q- How do we determine the right of use asset for the trucks in a waste management contract where there is an embedded lease?

A – The right of use asset is derived from the lease liability. Payments for leasing the trucks will need to be determined and this amount will be used as the starting point for the right of use asset in accordance with paragraph 24 of AASB 16.

The right of use asset is not determined by the fair value of the assets.

Transition**Q – OLG has mandated the use of the grandfathering exemption on transition under AASB 16. Can a Council choose to ignore the grandfathering and recognise an agreement (e.g. waste management contract) under AASB 16 if it contains an embedded lease on transition?**

A – The ‘grandfathering’ exemption means that councils are not required to re-assess whether an agreement contains a lease where council had previously considered that the agreement did not contain a lease under AASB 117 and associated interpretations.

For council to use this exemption, they are required to provide the documentation where the assessment was previously performed.

This means:

- If council had previously determined that the agreement did not contain a lease and can provide the supporting documentation, they are not able to record the contract as a lease under AASB 16 until the current contract is changed.
- If council had not previously considered whether the agreement contains a lease or is unable to produce the supporting documentation, the ‘grandfathering’ exemption is not available.

Lease accounting

Q – Run through an example of the accounting treatment i.e. debits and credits as at 30 June 2020?

Initial recognition of the lease

Dr: Right of use asset

Cr: Lease liability

Ongoing basis

Dr: Depreciation expense

Dr: Lease liability

Dr: Interest expense

Cr: Cash – lease payment

Cr: Accumulated depreciation

Q - Are we required to discount the lease payments to determine the lease liability?

A – Yes, the payments will be discounted based on the implicit rate in the lease (if readily determined) or otherwise councils incremental borrowing rate.

Q - Can we apply cost approach to one lease contract and fair value approach to another contract for the assets within the same underlying class of assets? For example, if council leases a library building and a workshop building. Both underlying assets are buildings, but because they are the right of use assets, can council use, as a subsequent after recognition measurement, as fair value for the library and cost for the workshop?

A- In the guidance to councils on transitioning, OLG has mandated the cost approach for all right of use assets ([click here to access](#)) Therefore council cannot hold any right of use asset at fair value.

On transition, if an asset was previously held under a finance lease and was at fair value, the deemed cost of the right of use asset associated with this asset at 1 July 2019 is the carrying amount on 30 June 2019.

Q –How do we determine the incremental borrowing rate for leases where the implicit rate is not included in the lease?

A – The incremental borrowing rate specified by AASB 16 considers the security provided by the lease asset over the lease term using the specific credit risk of council in the current economic environment.

The only definitive answer to this would be if the financial institution used by council provided this information. In practice, this is not occurring due to time needed to be spent on pricing 'pretend' loans.

Councils should first ask the lessor to provide the implicit interest rate in their leases, as this information is known by the lessor and would reduce the estimation used by councils.

Where the lessor will not provide the rate, councils are required to determine an appropriate methodology. This could be based on comparing any secured floating rate borrowings to a benchmark index such as the RBA indicative lending rates or the Milliman Australian corporate bond rates and determining the risk margin currently applied to councils. This margin could then be applied to the same benchmark index for future leases.

The methodology should be documented, applied consistently and agreed with the council auditors.

Q- Council has recognised a right of use asset on commencement of the lease. Where council undertakes capital improvements in the future, how are these recorded? According to the contract, all improvements on the leased property become property of the landlord.

A – This would depend on the nature and substance of the arrangements:

- If the requirement to undertake the improvements to the right of use assets was a part of the lease, then in substance, they are lease payments. Lease payments are recorded through the lease liability if the amount was specified on inception of the lease or otherwise variable lease expenses – this is common with many concessionary leases.
- If the improvements to the right of use asset are not specified in the lease, council would need to explore why they are paying for improving the underlying asset, i.e. the substance of the arrangement and account for the improvements based on the analysis.
- If the improvements are to construct partitions etc to set up the building in a manner required by council, these would be recorded as a leasehold improvement asset consistent with the previous accounting treatment.

Q – The accounting code for 30 June 2020 suggests that the only assets earning operating lease income are investment property – can you confirm that this is correct?

A – Under the old accounting standards, if council was a sub-lessor and they determined that the head lease was an operating lease, there was no asset recorded on the books of council and the rental income did not necessarily relate to any asset.

Under AASB 16, rental income indicates that an agreement meets the definition of a lease and council will either have an investment property (if it is an owned asset) or a right of use asset where the underlying asset has arisen from the head lease. The assumption in the Code is that this will generally arise only for land and buildings. Therefore, the right of use asset will be classified as an investment

property – the body of the note shows **owned** investment property only. The commentary provides guidance where councils have sub-leased their right of use assets and therefore the investment property is a right of use asset rather than an owned property. If the prevalence of councils showing investment property arising from right of use assets is significant, the note for owned investment properties may be duplicated for the 2021 Code via a sub-note in the investment property note.

If council have hire fees that do not arise under a lease as defined in AASB 16 (which may be the case for many transactions such as hall and facility hire), there is no change in accounting or disclosures.

Q – Council has a lease which commenced 1 December 2016, the initial termination date was 30 November 2019. The lease included an option to extend until 30 November 2021. At 1 July 2019, council determined that the lease option was “reasonably certain” to be taken up and the right of use asset and lease liability was adjusted. At 30 November 2019, circumstances changed, and the lease was terminated.

How should this be accounted for?

A – If the lease was terminated early; when this decision was made, the lease liability and right of use asset are adjusted to reflect the updated termination date and associated disposal. Any difference between the right of use asset and the lease liability is taken to the income statement.

Peppercorn / concessionary leases

Q – How do Councils account for peppercorn / concessionary leases?

A – Under the OLG guidance to councils on transitioning ([click here to access](#)), councils are recommended (not mandated) to use the temporary exception in AASB 2018 – 8 to record the right of use assets arising from peppercorn / concessionary / significantly below market value leases at cost, where cost is based on the calculated lease liability.

The AASB have stated that this exemption is temporary. If councils enter into new concessionary leases, information regarding the fair value of the right of use asset should be obtained to ensure Council have relevant information if changes to the exemption are made.

If councils choose not to hold the right of use assets at cost, they are required to fair value the right of use asset at transition, record the lease liability and the difference between these figures will be taken to the income statement (or retained earnings on transition).

The fair value recorded at commencement date will be the deemed cost for future accounting.

Lessor accounting

Q – Is it correct that lease accounting where council is the lessor has not changed?

A – Where council is the head lessor, there is no change to the accounting under AASB 16. A lessor is still required to classify leases as either operating or finance leases.

Where council is a sub-lessor, the accounting is likely to change since they would now have a right of use asset, arisen under the head lease. The accounting for this asset depends on whether council classifies the sub-lease as operating or finance.

Scenarios

Q - Council has recently built a new RFS building costing \$11 million and council has recognised as their asset. If RFS has leases in place for assets being used within the building – how does council account for them?

A – If the parties to the lease are RFS and the lessor, council would not account for the lease since council has no rights or obligations in relation to the assets. If council is a party to the lease, then the substance of the arrangement needs to be considered and the lease is accounted for in accordance with AASB 16.

Q – We outsource the operations of our pool; will this be a lease?

A – This will depend on the terms and conditions of the arrangement. If council retain the right to control the use of the pool, there will not be a lease. However, if the Operator has the right to control the use of the pool, it is likely it will be a lease under AASB 16.

Factors to consider include:

- Who sets the price charged?
- Who decides the opening hours?
- Who decides who can use the pool at certain times?
- Who decides cleaning / maintenance schedules?

Q – Council has a doctor shortage and are considering taking a lease over a building and then sub-leasing it to doctors to encourage them to the area. What are the accounting impacts?

A – A right of use asset will be recorded under the head lease and when the sub-lease is taken out, council will have to classify the sub-lease as an operating or finance lease.

If the sub-lease is a finance lease, the right of use asset will be de-recognised (based on the portion covered by the sub-lease) and council will recognise a net investment in finance lease (finance lease receivable).

Note – if the sub-lease is for a lower payment than the payments under the head lease, council will record a loss on commencement of the sub-lease.

If the sub-lease is an operating lease, council will retain the right of use asset on the statement of financial position and recognise the lease income on a straight-line basis over the life of the lease.

Q – Council are purchasing a block of land with a house on it. The current owner is staying in the house for the next 1-2 years paying Nil rent. Will this cause issues for us?

A – As the lessor, council will be required to classify the lease as either an operating or finance lease and account for the lease depending on the classification.

Since the lease is for 1 – 2 years, it is likely to be an operating lease, which will involve recognising the rental income over the lease term. Although the physical payments are nil, council should consider whether there was an implied rental income in the purchase of the asset.

In addition, if Council intends to demolish the house, the fair value of the land and buildings is likely to take account of the land only.

Q – If council has a licence for crown land that meets the definition of a lease and council pays for the licence annually, but the term is not determined. Council just continues to use the land and pay licence fee as per annual invoices from Crown.

How do we determine the lease term?

A – Where there is a long-term arrangement in place, councils should consider whether in substance they have an asset under their control (i.e. IPPE) rather than a right of use asset.

If it is still considered a lease under a rolling arrangement, the cancellation clauses in the agreement will need to be considered. If both parties have the right to cancel the lease without permission, council must consider whether either party would suffer more than an insignificant penalty if the lease was cancelled.

In many cases, councils are managing crown land and incurring all costs associated with it; therefore, crown would suffer more than an insignificant penalty if the lease was cancelled. The IFRS Interpretations Committee has confirmed that entities need to consider the broader economics of a contract rather than only a termination penalty in the contract ([click here for agenda decision](#)).

Generally, in this case, an entity would have the lease term as the remaining useful life of the asset. Given that this is land, an estimate should be made. Or as noted above, this may be in substance Council's IPPE, which should be recorded on the books and the licence fee is deferred consideration.

Other**Q- Will OLG give any guidance re disclosures for COVID?**

A – At this stage, it is not possible to give guidance on the disclosures for COVID-19 given that the environment at 30 June 2020 is not known.

OLG are monitoring the questions received on COVID-19 and will issue specific guidance as appropriate. Councils are encouraged to raise any specific questions and issues on the daily online survey ([click here to access](#)). This survey will assist OLG to direct your issues to the right channels, identify emerging issues and provide timely and effective responses.