Appendices – Local Government Code of Accounting 2023/24 – Section 5

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Local Government Act 1993 (NSW) – Investment order

(Relating to investments by councils/JOs)

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.

<u>Transitional Arrangements</u>

(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.

<u>Key Considerations</u>

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 *Local Government Act 1993,* the *Local Government (General) Regulation 2021* 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 / JO 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 / JO has earned, in respect of the money invested.

Internal allocations 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 councils/JOs)

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

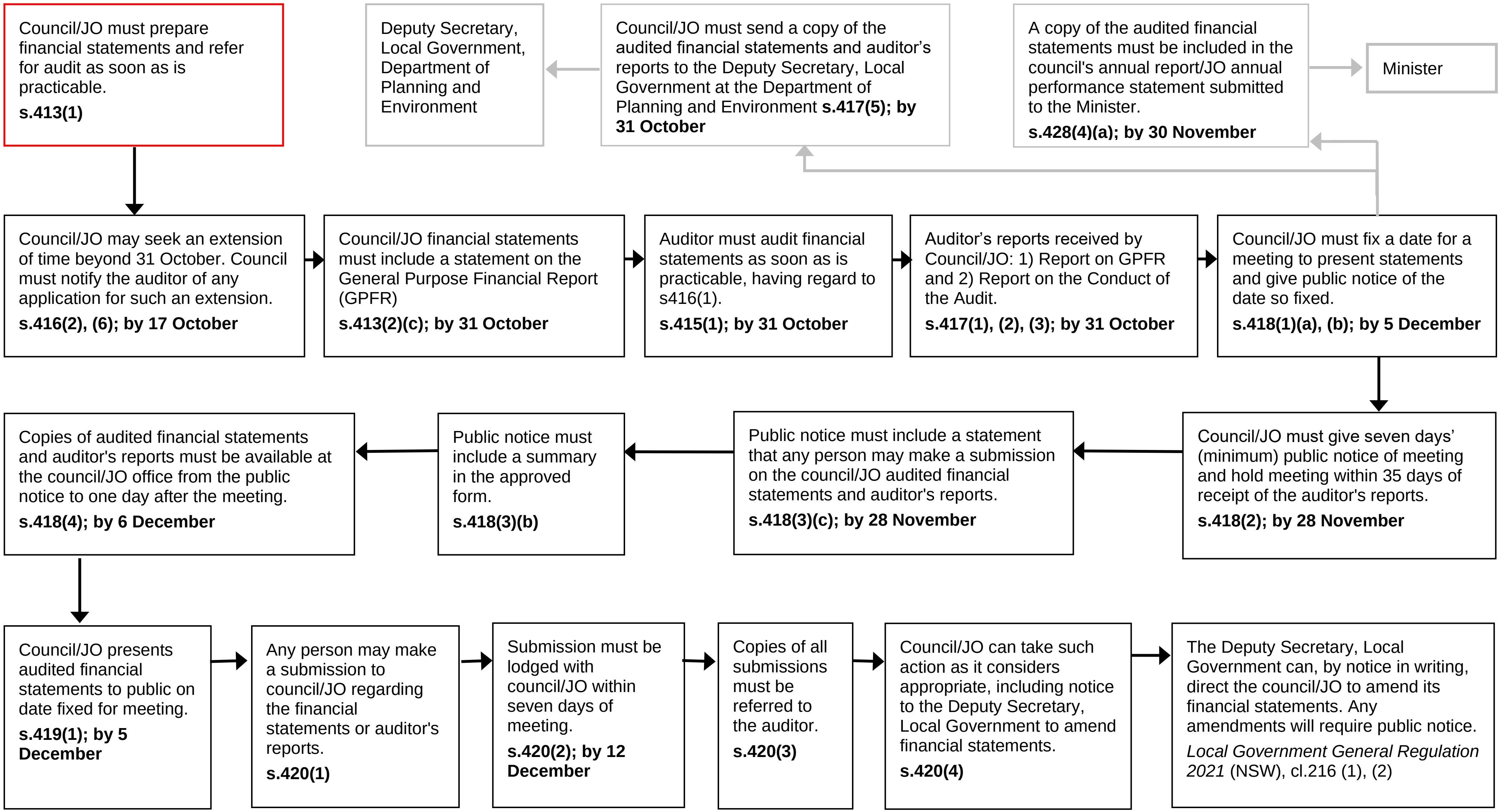
Section 418(3) of the Act provides that the public notice must include:

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) 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 (councils only)		
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
Guidance for determining fair value of 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 TPG 23-09 and related instrument TPP 21-09 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.

All new assets are measured initially at their cost of acquisition. However, the initial valuation of developer-provided assets should be on the basis of their gross replacement cost.

At each reporting period, councils must assess whether there is any indication that the current carrying amount of assets is materially different from their fair value. Where this is the case then the asset class should be revalued for that reporting period regardless of the date of the previous comprehensive revaluation.

Councils should document their annual assessment of fair value including reasons why council concluded that carrying value was not materially different from fair value, where applicable.

If councils use an index to determine whether the carrying amount of an asset is materially different from the fair value, the index should:

- be appropriate to the class to which it is applied, in terms of location, condition and technological change, where possible, e.g. a general price index such as CPI is not an appropriate index
- have a record of regular publication/availability
- be periodically assessed for appropriateness, including as part of the comprehensive revaluation.

Assets other than water and sewerage network assets do not need to be indexed where the carrying amount materially represents fair value. Water and sewerage network assets are to be annually indexed in accordance with the Rates Reference Manual issued by Department of Planning and Environment – Water.

Where a class of assets includes a large number of minor and unique assets (e.g. other assets, other structures and open space / recreation assets), councils have the discretion to apply a sufficiently specific and relevant index that reflects the change in money value since the last valuation or acquisition, provided the Gross Carrying Amount of the asset class does not exceed 5% of the total for Infrastructure, property, plant and equipment.

A comprehensive revaluation of each asset should generally be performed on a regular basis as determined appropriate by Council, this is in addition to the annual assessment by Council of carrying amount compared to fair value.

Councils should develop their comprehensive revaluation schedule based on their current practice. OLG does not mandate when each class of asset is subject to a comprehensive revaluation.

Council assets not held primarily for their ability to generate net cash inflows are typically specialised assets held for continuing use of their service capacity. Where these assets are held at fair value and assessed each year to determine whether the carrying amount is materially different from the fair value, then they are no longer subject to the requirements of AASB 136 Impairment of Assets. If a particular asset is considered to have suffered a decline in fair value, due to for example storm damage, then this will not mean that all other assets in the class are subject to a comprehensive revaluation since they are already being reviewed on an annual basis to compare carrying amount to fair value with adjustments made as necessary.

Accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset, so that the net carrying amount of the asset after revaluation equals its revalued amount.

If the carrying amount of a class of assets decreases as a result of a revaluation, the net revaluation decrease shall be debited directly to equity under the heading of 'Revaluation surplus' to the extent of any credit balance existing in any revaluation surplus in respect of the same class of asset – any decrease greater than the Revaluation surplus balance for that class is recognised in the Income Statement. Revaluation increases and revaluation decreases relating to individual assets within a class of infrastructure, property, plant and equipment shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

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.

Where there is no market-based evidence of fair value, councils will need to estimate fair value using the cost-approach method. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset.

The cost approach is generally not appropriate for land since land is not a specialised asset and there is market-based evidence available in relation to its fair value

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 joint organisations of councils.

For all land valuations, guidance in AASB 13 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 of NSW Treasury Accounting Policy (TPP 21-09) provides guidance on valuing depending on the asset's characteristics. 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.

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

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.
When councils are separating buildings into depreciable components, the emphasis should be on materiality, and the suggested minimum componentisation of buildings is as follows:

(i) the roof
(ii) fire services such as sprinkler systems
(iii) transportation services such as lifts and escalators
(iv) mechanical services such as air conditioning and hot water systems
(v) floor coverings such as carpets, tiles etc.
(vi) 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 AASB 116.

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'* (AASB 1051; 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 AASB 1051, AASB 13 and AASB 116 and 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

Asset type	Component
Recognise all LUR acquired after 1 July 2008	Determine if land under roads meets the definition of an asset. Determine if the asset can be reliably measured. Account for land under roads acquired in accordance with the revaluation model in AASB 116 Property, Plant and Equipment. Councils should recognise land under roads acquired at its cost, where the cost represents fair value. Any land under roads acquired at significant less than fair value should be measured at its fair value on initial recognition. 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 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.

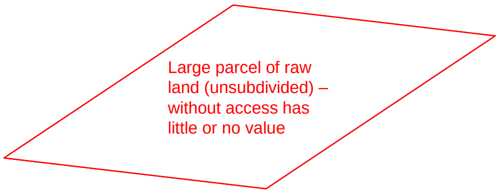


Figure 1: Raw land

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.

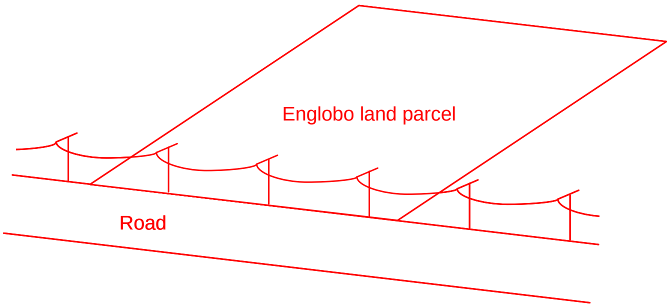


Figure 2: Un-subdivided land – Englobo parcel

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.

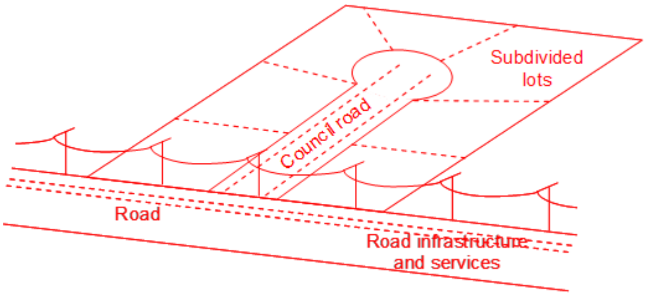


Figure 3: Subdivided land

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 = 5,000,000m2
The city area is 800 km2 (800M m2) Site value is $6,800M – $8.50 /m2. [$6,800M/800M m2]
Adjustment for englobo value $8.50/m2 x 65% = $5.525 /m2 Englobo value $2.975 /m2 [$8.50 /m2 – $5.525 /m2]
Adjustment for access rights $8.50 /m2 x 25% = $2.125 /m2 Access adjusted value $0.85 /m2 [$2.975 /m2 – $2.125 /m2]
LUR area is 5M m2 Unit value of non-road land = $0.85 /m2 [$8.50 /m2 – 90% – $0.85 /m2]
Therefore, value of LUR = $4,250,000 [5M m2 x $0.85 /m2]

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 material accounting policy information 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.

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. Equipment, furniture and fittings and library resources

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* and AASB13 *Fair Value Measurement*.

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.

Water and sewerage

For water supply and sewerage assets, it can be reasonably assumed that the assets will be in place indefinitely in order to maintain these essential services. Therefore, there is normally no need to consider any dismantling or removal and restoration cost in the assessment of fair value.

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 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 to demonstrate 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.

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

The Australian Accounting Standards Board (AASB) released AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* (AASB 2022-10) in December 2022.

The document is a guide to assist NSW Local Government entities with accurate interpretation and application of the amending standard and addresses commonly asked questions.

Why was AASB 2022-10 issued?

Many stakeholders in the public sector have commented to the AASB that applying AASB 13 *Fair Value Measurement* had been challenging and costly and that it would be useful to have guidance on how to measure the fair value of non-financial assets of not-for-profit (NFP) public sector entities not held primarily for their ability to generate net cash inflows, in particular (but not limited to):

a. the market participant assumptions to use in measuring fair value where a public sector entity's asset has few or no market participants (other than the holder of the asset) and where information about market participants' inputs to a current replacement cost model may be scarce;

b. how government-imposed public-sector-specific restrictions on non-financial assets should be considered;

c. how to measure the fair value of public sector entity assets using the cost approach; and

d. the concept of obsolescence under the cost approach.

The AASB was advised that the measurement issues are pervasive in the NFP public sector and involve inconsistent practical application of the principles of AASB 13.

AASB 2022-10 is intended to assist NFP public sector entities to apply the principles of AASB 13 more consistently in measuring their non-financial assets not held primarily for their ability to generate net cash inflows. See the section below regarding areas not addressed in the standard.

Are the changes made to AASB 13 expected to be substantive?

AASB 2022-10 primarily introduces supplementary authoritative implementation guidance and illustrative examples to help NFP public sector entities apply the principles of AASB 13 more consistently and cost-effectively.

AASB 2022-10 paragraphs BC42 notes that these changes:

a. 'would not necessarily change practice for some NFP public sector entities, and

b. do not indicate that entities changing practice in how they measure relevant assets made an error in applying the existing requirements of AASB 13.'

Nonetheless, it is crucial for NSW Local Government entities to review the new requirements and evaluate whether any alterations to their valuation approaches are needed.

What changes did AASB 2022-10 make?

The changes to AASB 13 can be categorised into four topics which have been summarised below:

a. Consideration of **Highest and Best Use**: Under the amended AASB 13, an entity is mandated to evaluate whether an asset's highest and best use deviates from its current use only under specific circumstances:

   i. the asset is either classified as held for sale or distribution to owners according to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* or

   ii. it is highly probable that the asset will be used for a purpose different from its current one.

b. **Financial Feasibility**: The amendments clarify that the term 'financially feasible' in the context of an asset's use means that market participants would be willing to invest in the asset's service capacity, weighing both the ability of the asset to provide necessary goods or services to beneficiaries and the resultant cost of those goods or services.

c. **Use of Own Assumptions in Fair Value Measurement**: If a comparable asset's market selling price or the required market participant data for measuring the asset's fair value are not observable, the entity is required to use its own assumptions as a starting point for developing unobservable inputs. These assumptions should then be adjusted based on reasonably available information indicating that other market participants (including, but not limited to, other NFP public sector entities) would use different data.

d. **Application of the Cost Approach**: Additional guidance is included on the application of the cost approach for measuring the asset's fair value, including types of costs to include in the replacement cost of a reference asset and how to identify economic obsolescence.

The following sections will delve into the specifics of these changes and explore their likely impact on NSW Local Government entities.

Highest and best use

AASB 2022-10 has streamlined the circumstances under which NFP public sector entities need to consider if an asset is being used for its highest and best use. These conditions now apply only when, at the reporting date, the following applies to the asset:

a. It is categorised as being held for sale or for distribution to owners, in compliance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations,* i.e.

   i. available for immediate sale;

   ii. occurrence of the sale is highly probable; and

   iii. sale is expected to occur within 12 months; OR

b. It is highly probable that the asset will be utilized for a purpose different from its current use, which is the case when all the following conditions are met:

   i. the alternate use of the asset is physically viable, legally permissible, and financially feasible in line with AASB 13 paragraphs 28 and Aus28.1;

   ii. the relevant management level has committed to a plan to change the asset's use to that alternate purpose, and an active program to fulfill the plan has been initiated;

   iii. any necessary approvals to alter the asset's use have been acquired; and

   iv. it is highly probable, based on reasonably available information, that the current use of the asset will be discontinued under the plan within a year.

This means that NSW Local Government entities will be able to eliminate the highest and best assessment for the assets where the criteria above are not met, and the current use of the asset should be used when assessing fair value.

Financial feasibility

The AASB was requested to provide information about the concept of financial feasibility in the context of NFP public sector entities.

Financial feasibility is explained in AASB 13.28(c) as a use that considers whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (considering the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

AASB 2022-10 clarified that for NFP public sector entities that don't primarily hold a non-financial asset for generating net cash inflows, an asset's use is considered financially feasible if market participants, which can include other non-profit public sector entities, would be willing to invest in the service capacity of the asset. This feasibility should consider both the asset's ability to provide necessary goods or services to beneficiaries and the associated costs of these goods or services.

The clarification is unlikely to have significant impact for NSW Local Government entities.

Use of own assumptions

AASB 13 already requires the consideration of the principal (or most advantageous) market, and to consider the perspective of market participants. AASB 2022-10 adds implementation guidance that NFP public sector entities may start with their own assumptions (if they are market participants for the asset or liability) but they are still required to consider available information about other market participant assumptions. This is relevant where both the market selling price of a comparable asset, and some market participant data required to measure the fair value of the asset, are not observable.

This acknowledges the unique nature of many NFP public sector entities and the specialised assets they often hold. For example, while certain assets may not have an active market with multiple buyers and sellers, the entity itself is often a market participant and the assets may have value in use to other similar entities.

The ability for NSW Local Government entities to start with their own assumptions should reduce the time and costs incurred in determining market participant assumptions.

Application of the cost approach

AASB 2022-10 provides additional implementation guidance NFP entities in the public sector when using replacement cost as a technique to measure the fair value of non-financial physical assets.

Key terms

Term	**Definition**
Subject asset	The asset for which fair value is being determined.
Reference asset	Suitable alternative to the subject asset that the market participant buyer would consider in developing its pricing assumptions about the subject asset. A reference asset could be a modern equivalent asset or a replica asset (where the utility offered by the subject asset could be provided only, or more cheaply, by a replica rather than a modern equivalent asset).
Modern equivalent asset	A modern equivalent asset is an asset that provides similar function and equivalent utility to the subject asset but is of a current design and constructed or made using current cost effective materials and techniques.

The current replacement cost of an asset is based on the amount that would be currently required to replace the service capacity of an asset in a current transaction at the measurement date, considering the wear and tear, the economic obsolescence, and the physical deterioration of the original asset.

When using the cost approach to determine the fair value of an asset, an entity must:

- Estimate the current cost that a market participant buyer would incur to acquire or construct a reference asset. This reference asset's replacement cost needs to be calculated based on specific rules outlined in AASB 13 paragraphs F11-F15.
- This estimate is adjusted for:
    - Any differences in the current service capacity between the reference asset and the subject asset. For example, if the modern equivalent of the asset is engineered to a higher standard than the subject asset, i.e., the modern equivalent building has superior fire safety features and a greater number of lifts than the subject building.
    - Any obsolescence that might affect the subject asset, including physical deterioration, functional obsolescence (the asset is less useful than a newer design), and economic obsolescence (external factors have caused a decrease in the value of the asset).

This approach reflects the premise that a market participant buyer would not pay more for an asset than the cost to replace its service capacity.

These changes should assist local government entities is estimating current replacement costs as they provide more guidance regarding appropriate costs to include in the fair value estimate.

Costs to be included in estimating replacement cost

In estimating the replacement cost of a reference asset, entities should include the following costs where they are necessarily incurred:

- **Costs required to restore another entity's asset**, for instance, utility infrastructures such as water or electricity mains which would hypothetically be disturbed if replacing a road. Note, these costs are excluded if they relate to an asset in the same consolidated group but this is unlikely to be relevant for NSW Local Government entities.
- **Other disruption costs** hypothetically incurred when acquiring or constructing the reference asset, such as costs of redirecting traffic due to construction disruptions.
- If the subject asset is attached to land, **site preparation costs** for the reference parcel of land are included, unless those costs are already reflected in the subject land's fair value measurement.

The cost approach assumes a hypothetical acquisition or construction of the subject asset occurs in the most economical manner. However, NFP public sector entities often incur additional costs to maintain adequate quality of services or adhere to Government policies. If the entity incurs costs additional to the cheapest legally permitted costs, typically those additional costs would be included in the measurement of the asset's current replacement cost.

Entities apply judgment to determine which costs would be incurred in a hypothetical acquisition or construction of a reference asset and should include all such costs for which data is reasonably available.

Obsolescence

Obsolescence represents the decrease in the value of an asset due to technological, market-related, or other changes that result in a reduction in the utility of that asset. This can take the form of physical deterioration, functional obsolescence, or economic obsolescence.

Physical deterioration is the loss in value due to physical wear and tear, damage, or decay which is typically associated with age and use of the asset.

Functional obsolescence is the loss in value due to the asset's inefficiency or inadequacy compared to a more efficient or less costly asset that achieves the same productive capacity and can be due to changes in design, materials, or processes.

Economic obsolescence is the loss in value caused by factors external to the asset, such as changes in the industry, market demand, or legal and regulatory environments that affect the utility or desirability of the asset.

Under the cost approach to fair value measurement, the current replacement cost of a reference asset must be adjusted for any obsolescence that may apply.

Asset location

The location of an asset can significantly affect its value, and therefore it is a crucial factor to consider when estimating the current replacement cost. Under the cost approach, the hypothetical acquisition or construction of the reference asset is assumed to take place at the subject asset's existing location, as per AASB 2022-10.F11(a) regardless of whether the asset is located in a premium or less desirable location.

It is important to note that this assumption is made even when it would be feasible to relocate the asset to a cheaper location since the cost approach reflects the amount that would be required to replace the service capacity of an asset at its existing location.

Illustrative examples

AASB 2022-10 includes a number of illustrative examples, these have not been reproduced in this document, however a summary of key points has been included to assist NSW Local Government entities in their review of them.

Example 1: Outlines the considerations of the costs to include in the gross replacement cost of a reference road by a Local Government entity (Council A).

- Council A determines which costs should be included in the replacement cost of a reference road, including:
    - the costs to remove unwanted existing structures, since there are no vacant blocks in the existing area and
    - additional night-time disruption costs incurred to complete the works at night which would minimise disruption.
- The total replacement cost also includes the costs associated with design work, earthworks, formation, pavement and surfacing.
- The example underscores the need to consider all costs a market participant buyer would reasonably incur to construct a substitute road at the subject road's existing location.

- Note that this example does not consider measurement of accumulated obsolescence nor valuation of land.

Example 2: Outlines the considerations of a Local Government entity in relation to disturbance of cables which are now in existence but did not exist at the date of construction of the original building.

- Due to the existence of internet cables underneath the site, a hypothetical replacement of the building would disrupt the protective pipes of these cables.
- The gross replacement cost of the building is calculated by adding the restoration cost of the disrupted pipes to the cost of replacing the building.
- The restoration cost is included in the gross replacement cost despite the fact that Council B didn't incur these costs when originally constructing the building since fair value considers the condition of the asset as at the measurement date and a market participant would necessarily incur these costs at the existing location.
- The example emphasises that fair value measurements should consider the conditions of the asset as at the measurement date and should include all costs that a market participant buyer would necessarily incur.
- Note that this example does not consider measurement of accumulated obsolescence nor valuation of land.

Example 3: Illustrates a situation where Department B, a government entity, is estimating the fair value of its railway tracks.

- Commonwealth Government offers incentives for replacement of public transport assets if at least 50% of the assets use domestically manufactured material.
- Although it's 30% cheaper to manufacture tracks overseas, there's no indication that other market participants would acquire tracks from outside Australia.
- Department B factors in the higher costs of Australian manufacture in its estimated replacement cost, despite the absence of a legal requirement to do so.

Example 4: Presents three scenarios related to the site preparation costs in constructing an airstrip for land that was transferred to them in three different Jurisdictions A, B, and C.

- In Jurisdiction A, the transferred and surrounding land was undulating and required leveling, which involved additional costs which were added to the replacement cost.
- In Jurisdiction B, even though the transferred land was undulating, available land in the proximity were level. Therefore, the site leveling cost was not factored in the estimated replacement cost as a hypothetical market participant could purchase a level site.
- In Jurisdiction C, the transferred land was level, but other available land was undulating. The levelling costs are included in the replacement cost since another market participant would have to acquire the undulating land.

Example 5: The concept of economic obsolescence is explored in relation to the cost approach for the valuation of an asset - a commercial-grade kitchen used for training student chefs in a NFP public sector institute (College A).

- College A's kitchen is scheduled to be used only four hours per week, and it has the necessary equipment needed for the training student chefs.
- Despite being operated less intensively than physically possible, this does not indicate economic obsolescence since the kitchen is meeting its intended purpose and is achieving the planned level of output.
- Thus, even if another college were to replace College A (i.e., 'step into its shoes'), it would still be willing to pay the full replacement cost for the kitchen and there is no deduction for economic obsolescence.
- This example illustrates that economic obsolescence is not just about the physical utilisation of an asset but also about its relevance and effectiveness in fulfilling its intended purpose. If an asset, even if underutilised, is still fulfilling its planned objectives and output, it may not be considered economically obsolete

Other considerations:

Role of valuers

The amendments to AASB 13 introduce changes that will require judgment to be applied by NFP public sector entities and their valuers.

Valuers play a critical role in providing an independent, objective estimation of the fair value of an asset. They must understand and apply the relevant financial reporting requirements and valuation techniques when determining fair value. This includes understanding the amendments made to AASB 13 and how they apply to the specific circumstances and characteristics of the asset being valued.

Valuers will need to work closely with NFP public sector entities to understand the relevant facts and circumstances, including the nature of the asset, any restrictions on the asset and how the asset contributes to the entity's service delivery objectives.

In addition, valuers will need to consider the entity's own assumptions in developing unobservable inputs and adjust these assumptions if reasonably available information indicates that other market participants would use different data.

It is important for valuers to provide comprehensive and clear valuation reports that outline the approach taken, the inputs used, and the judgments made in determining the fair value of an asset as well as confirming compliance with AASB 13.

Local Government entities should review the reports received from their valuers to understand and agree on the inputs, assumptions and valuation of assets reported to ensure that they can explain the changes to asset values to both internal and external stakeholders, including auditors.

Impairment of assets (AASB 136)

An entity needs to assess whether there is any indication that an asset may be impaired. This involves evaluating the existence of one or more impairment indicators, which can be external (such as significant adverse changes in technological, market, economic or legal environment) or internal (like evidence of obsolescence or physical damage of the asset).

If any such indication exists, the entity is required to estimate the recoverable amount of the asset.

Local Government entities should consider the exemption in AASB 136.Aus 5.1 which applies to specialised assets owned by NFP organizations that aren't held primarily for their ability to generate net cash inflows.

These types of assets often have service capacities that NFP organisations rely on for their operations, and are rarely sold, so their disposal costs are usually negligible and therefore their recoverable amount is typically the same as their fair value.

For these reasons, the requirements of AASB 136, do not apply to these assets if they are regularly revalued to fair value according to the revaluation model set out in AASB 116 *Property, Plant and Equipment* which involves assessing at each reporting date whether the current carrying amount is materially different from the assets' assessed fair value at that date.

Piecemeal replacement

The cost of replacing an asset in its entirety might be different to the costs of replacing the asset undertaken in different phases. The cost approach assumes the replacement cost to replace the asset in its entirety since a market participant would not pay for additional costs arising from a piecemeal replacement.

If specific additional costs arising from piecemeal replacement are identifiable, they should be excluded from the estimate of the asset's current replacement cost. (AASB 2022-10.BC192-193).

Heritage assets

Where Local Government entities control heritage assets then additional considerations need to be made, per AASB 13.F15 when the heritage features of an asset are an essential part of its service capacity, the replacement cost of the reference asset would generally be the cost of replicating the heritage and other features of the subject asset (the reproduction cost).

This approach assumes reconstruction using modern, cost-effective materials and processes, but in a manner that is sympathetic to the original heritage design and structure to the extent feasible. This means the process must respect and maintain the cultural, historical, or aesthetic significance of the original asset while using contemporary methods and materials for efficiency and cost-effectiveness.

This guidance shows the special consideration given to heritage assets in financial reporting due to their unique characteristics and the role they play within society. It's crucial to maintain their heritage value during replication or replacement, even if this results in higher costs than replacing with a completely modern equivalent.

When are the changes effective?

The amendments introduced to AASB 13 by AASB 2022-10 will apply to NSW Local Government entities for the year ended 30 June 2025 and since the changes apply prospectively, there will be no restatement of opening balances at 1 July 2024.

Note that NSW Office of Local Government has not permitted early adoption of this standard.

What was not changed by AASB 2022-10?

Measurement approach

The amendments do not mandate a specific measurement approach for determining the fair value of a non-financial asset of a NFP public sector entity not held primarily for cash inflow generation.

AASB 13.61 requirements do not limit the application of the market, income, or cost approach. The AASB believes specifying a measurement approach for different types of assets conflicts with principles-based standards, and may also not align with AASB 13.62-63 that suggest various assets might be suitably valued using a mix of the market, income, and cost approaches.

NSW Local Government entities must exercise judgment in choosing which valuation technique (or combination thereof) to apply, considering all relevant factors, circumstances, and the availability of observable inputs related to the asset.

Restricted land

The December 2022 amendments do not prescribe a specific measurement approach for valuing restricted land. NFP public sector entities need to apply their judgment in selecting the appropriate valuation technique (or combination thereof), taking into consideration all facts, circumstances, and availability of observable inputs relevant to the subject asset.

If there are legal or other restrictions that would be transferred to a market participant in a hypothetical transaction, these restrictions must be considered in the fair value measurement.

The basis for conclusions (BCs) to AASB 2022-10 contains detailed information regarding the AASB's rationale for not making any changes in this area, some key points have been included below.

- BC233 highlights that the AASB noted that the market approach for land valuation is primarily applied by NFP public sector entities and rejected the idea of providing guidance on quantum discounts for land.
- BC234 discusses the role of the Offices of Local Government in determining accounting policies, suggesting they could designate valuation approaches for consistency within a jurisdiction.
- BC235-BC238 discuss public sector-specific legal restrictions on land use, including the difficulties that these restrictions pose for NFP public sector entities.
- BC239-BC240 reflect stakeholders' concern that valuing land subject to restrictions at very low or nominal amounts does not reflect the land's service potential. The AASB did not form a view and noted that the description of service potential in the context of an asset of a NFP entity would be considered as part of the AASB project to adapt the Conceptual Framework for Financial Reporting to the NFP sector in Australia.
- BC241-BC242 summarise feedback from stakeholders and reveal two different viewpoints on how to measure the fair value of land with public-sector-specific legal restrictions. A minority of stakeholders believe that the cost approach should be used in specific scenarios, while most stakeholders argued for a market approach.
- BC243-BC248 delve deeper into these differing views. Those favouring the cost approach argue that public-sector-specific restrictions don't affect the price an entity would pay to continue delivering services. Conversely, the majority view holds that the market approach should be used as it considers the land restrictions.
- BC249-BC254 discuss the AASB's decision not to provide authoritative guidance on valuation techniques for fair value measurement, citing existing AASB 13 requirements and lack of significant inconsistency in practice.

Implications for Local Government community land

Appendix One includes general information about the public land management framework under the Local Government Act and the requirements over operational and community land.

Given that Councils are unilaterally unable to remove the restrictions in place over community land and given the nature of the assets, we expect that the restrictions over the use of the land would be transferred to a market participant in a hypothetical transaction and therefore must be considered in the fair value measurement of the land.

Additionally, per AASB 13.Aus29.1 and Aus29.2, the current use of a parcel of land is presumed to be its highest and best use, unless, at the measurement date:

- It is categorised as being held for sale or for distribution to owners under AASB 5; or
- It is highly probable that the asset will be utilised for a purpose different from its current use.

For example, land that is being used for community parkland which is going to be used for this purpose on an ongoing basis should be valued based on this use as a park rather than by reference to surrounding land that may be used for residential, commercial or other uses (AASB 13.BC113 and BC114).

Borrowing costs

The AASB concluded that the question of whether to include finance costs in the current replacement cost of an asset is not confined to NFP entities in the public or private sector. It would therefore be inappropriate to mandate a particular approach for

NFP entities applying AASB 13, given IFRS 13 does not specify the treatment of these costs for fair value measurements by for-profit entities.

Documentation

Estimating fair value of assets involves significant estimates and judgements and therefore NSW local government entities need to ensure that these have been appropriately documented for internal purposes and to provide information for the auditors to audit. This documentation might include:

- Support for replacement cost values, remaining useful lives as well as relevant condition assessments
- Basis and rationale for including certain costs within the fair value estimate if the cost approach has been used
- Other assumptions, for example consideration of obsolescence factors, patterns of consumption of future economic benefits and procurement approaches.
- Discussions held with the valuers and information regarding the appropriateness of their inputs and assumptions.
- If the NSW Local Government entity is using their own assumptions:
  - Their own assumptions used in the valuation and their appropriateness
  - How the existence of other market participants for the asset have been considered
  - Considerations around whether the identified market participants would use different data.

AASB 101 *Presentation of Financial Statements* requires disclosure of these significant estimates and judgements in the financial statements.

Additional resources

We encourage NSW Local Government entities to use these additional resources to assist with their understanding of the changes:

- AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*
  - Don't forget to also review the basis for conclusions and illustrative examples.
- AASB video: Modifications to AASB 13 Fair Value Measurement applicable to not-for-profit public sector entities

Additional information: Background information on NSW Local Government land

General public land management framework under the *Local Government Act 1993*

- A key function of councils under the *Local Government Act 1993 (the Act)* is to manage public land in their local government areas on behalf of and in the best interests of their local communities (the Act Chapter 6, Part 2).
- The Act requires that all council-owned land must be classified as either community land or operational land. Classification is generally achieved by a Local Environment Plan (LEP) but may, in some circumstances, be achieved by resolution of the council (see sections 31, 32 and 33), such as for newly acquired land.
- The classification of council-owned land has a direct impact on how it may be used and must be managed.

Operational land

- Operational land would ordinarily comprise land held as a temporary asset or as an investment, land which facilitates the carrying out by a council of its functions, or land which may not be open to the general public, such as a works depot or a council garage. Operational land may be sold or developed.

Community land

- Community land would ordinarily comprise land kept for the use of the general public such as parks, reserves or sports grounds.

- Community land must be managed in accordance with the land management regime contained in the Act, including in accordance with a Plan of Management adopted by council which details the specific uses and management of the land.
- Councils cannot sell, exchange or otherwise dispose of community land.
- Councils may grant leases, licences or other estates over community land in limited circumstances. There are restrictions on leases and licences, and also on the way community land can be used.
- It is a matter for each council in consultation with its community to determine and balance the needs of various sectors of the community wanting to use particular community land facilities.
- The Act provides a mechanism for councils to reclassify community land as operational land if the council determines it no longer requires a particular parcel of community land or that parcel is required for another council purpose.
- Reclassification is achieved by the adoption of a local environmental plan (LEP), also refer to the Local Environmental Plan Making Guideline – August 2023.
- Due to the special significance of community land, the Act requires the council to conduct a public hearing for any proposal to reclassify community land to operational land. Councils are also required to specifically extinguish trusts over community land in a schedule in the LEP documentation.
- A planning proposal for an LEP to reclassify land needs to be submitted for 'Gateway' approval by NSW Department of Planning and Environment (DPE), potentially with a list of requirements that need to be met which may include amendments to the application, additional reports or exhibition procedures.

Appendix F
Accounting for rehabilitation, makegood, remediation provisions

Relevant accounting pronouncements:

- AASB 116 *Property, Plant and Equipment*
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*
- Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

This accounting guidance is relevant where councils have an obligation to perform makegood (including lease makegood), restoration, rehabilitation etc works on any of their controlled assets (i.e. an asset on councils balance sheet) once council have finished using the assets or at other times during the period of control.

This appendix does not cover the accounting for landfill assets as the guidance for IPPE is included in the commentary to the note in the general purpose financial statements and the appendices.

It should be noted that the terminology 'rehabilitation' provision has been used throughout this paper, however the guidance applies to all provisions similar in substance.

The obligation to remove and / or restore arises when the related assets were built, or usage commenced, and council had the obligation from day one.

Any obligation to rectify damages caused by the operations are not required to be recognised when the asset is constructed if operations have not yet commenced.

AASB 137 requires a provision to be recognised when there is a liability, i.e. a present obligation arising from a past event. In regard to the debit entry, AASB 116 requires council to include the initial estimate of the cost of dismantling and removing the item and restoring the site onto the cost of the asset. The value of the infrastructure, property, plant and equipment (IPPE) increases by the amount of the initial provision at day one.

Subsequent change in the measurement of the provision is covered in Interpretation 1.

Initial measurement of the provision

The provision should reflect the estimated future costs to restore, rehabilitate etc at the time the work is needed and then a discount rate is applied to reflect the present value of the provision.

Councils should ensure they document the basis of the provision recorded and any evidence used in estimating the cost of the work. Where an expert valuer has been used, the methodology should be clearly explained and understood to ensure that risks are not double counted in both the discount rate and cash flows.

The discount rate required by AASB 137 is *'pre-tax rate(s) that reflect(s) current market assessment of the time value of money and the risks specific to the liability.'* This will require judgement by council and the methodology used should be clearly documented.

Initial accounting for the provision – Day one.

As noted above, the initial value of the rehabilitation provision is added to the cost of the underlying asset.

The entry on day one is:

Dr	IPPE	$xx	
Cr	Rehabilitation provision		$xx

Ongoing measurement

Ongoing accounting for the provision (assume no change in estimates of cost of rehabilitation – only change relates to unwinding of discounting)

At each reporting date where there is no change in the estimate of the work, council is required to book two accounting entries:

Unwind the discount on the provision, i.e. charging interest on the provision to increase the discounted liability to its future value.			
Dr	Finance cost (income statement)	$xx	
Cr	Rehabilitation provision		$xx
Depreciate the asset (which includes a component relating to the rehabilitation provision)			
Dr	Depreciation expense (income statement)	$xx	
Cr	Accumulated depreciation		$xx

Ongoing accounting for the provision (where there is a change in the estimate of the rehabilitation cost)

In addition to the two accounting entries described above, councils need to review the carrying amount of the provision at each reporting date to determine whether it continues to reflect management's best estimate of the costs to be incurred.

If a change to the estimate is required, the accounting is described in Interpretation 1. This applies to any decommissioning, restoration or similar liability that has been included;

- as part of the cost of an asset measured in accordance with AASB 116 or AASB 138 *Intangible Assets* (rehabilitation provisions of intangible assets are unlikely to be relevant for councils), or
- as part of the right-of-use asset in accordance with AASB 16 *Leases* and recognised as a liability in accordance with AASB 137.

Councils are required to review the carrying amount of the provisions at each reporting period and determine whether there any of the following have occurred:

- A change in the estimated outflows of cash required to settle the obligation
- A change in the current market-based discount rate (including time value of money, and
- An increase due to unwinding of discount (accounting discussed above).

The treatment depends on whether an entity is recognising the underlying asset at cost or fair value. Given that councils assets are held at fair value, the guidance below relates to the fair value model only.

Where the underlying asset is measured at fair value, changes in the liability are taken to the revaluation surplus related to that class of asset as if the liability change is a revaluation under AASB 116. Refer to AASB Interpretation 1 paragraphs 6(a) – (c) and Aus6.1 for this requirement.

Utilisation of the rehabilitation provision

When the provision is utilised, the entry is:

Dr	Rehabilitation provision	$xx	
Cr	Cash / creditors		$xx

Any surplus or deficiency based on actual costs incurred and the end of the rehabilitation compared to the carrying amount of provision is recorded in the income statement.

Considerations for valuation of assets where there is an associated rehabilitation liability

This paper does not address accounting for revaluation of the tip asset. Councils must review the carrying amount of the asset at each reporting period to ensure that it is not materially different from the current fair value.

When councils are obtaining a valuation of assets which have an associated rehabilitation (or similar) liability, then it is important to understand the basis of the valuation obtained. Paragraph IE7 of Interpretation 1 notes:

a. **if an asset is valued on a discounted cash flow basis**, some valuers may value the asset without deducting any allowance for decommissioning costs (a 'gross' valuation). Others may value the asset after deducting an allowance for decommissioning costs (a 'net' valuation), because an entity acquiring the asset will generally also assume the decommissioning obligation.

   For financial reporting purposes, the decommissioning obligation is recognised as a separate liability and is not deducted from the asset. Accordingly, if the asset is valued on a net basis, it is necessary to adjust the valuation obtained by adding back the allowance for the liability, so that the liability is not counted twice.

b. **if an asset is valued on a depreciated replacement cost basis,** the valuation obtained may not include an amount for the decommissioning component of the asset. If this is the case, an appropriate amount will need to be added to the valuation to reflect the depreciated replacement cost of that component.

Other considerations

- Both AASB 102 *Inventories* and AASB 116 require councils to apply AASB 102 to the costs of rehabilitation where the costs are incurred due to using the item to produce inventory during the period. For example, the cost of restoring the site of a quarry would be reflected as part of the aggregate extracted from it, and not added to the carrying amount of the site.
- Refer to Interpretation 1 – Illustrative example 2 (Page 8) for a further worked example.

Worked example

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

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 rehabilitation provision.

Note: All entries below refer to the rehabilitation provision and adjustment to the tip asset relating to the provision only.

Entries at date of tip establishment (1.7.X0) – to initially recognise the rehabilitation provision			
Dr	Tip asset	$4,660,000	
Cr	Provision for tip remediation		$4,660,000

Entries in 20X1 period

- unwinding of discount to arrive at amortised cost using the effective interest rate method – no change in estimate of cost to rehabilitate or the discount rate
(Provision for tip remediation @ 1.7.X0 multiplied by the effective interest rate of 6%.
($4,660,000 @ 6% = $280,000))
- depreciation of the tip asset ($4,660,000 /30 years = $155,333)
- review of carrying amount of asset and fair value is not materially different from current carrying amount.

Dr	Finance costs – unwinding of discount on provision	$280,000	
Dr	Depreciation expense	$155,333	
Cr	Provision for tip remediation		$280,000
Cr	Accumulated depreciation – tip asset		$155,333

Entries in 20X2 period – change in estimate for the costs to rehabilitate and revaluation of the tip asset

The provision carrying amount at 30 June 20X2 = $4,940,000 (being $4,660,000 + $280,000), however as part of the Council financial reporting process to consider the best estimate of the provision, it is noted that:

- as a result of technological advances, the present value of the rehabilitation provision has decreased by $150,000.
- There is no change in the discount rate.

Provision for rehabilitation	
Carrying amount at 30 June 20X2 prior to year end review	$4,940,000
Change in present value of the provision due to technological advances	($150,000)
Present value of the rehabilitation provision at 30 June 20X2	$4,790,000

The difference of $150,000 is taken to the revaluation surplus where the carrying amount does not exceed the carrying amount that would have been recognised had the asset been carried under the cost model (if this was not the case then the reduction would have been recorded in the income statement).

Dr	Provision for tip remediation	$150,000	
Cr	Revaluation surplus – tip asset		$150,000

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

Council has transacted the following financial assets and financial liabilities.

a Financial assets

- i Government bonds - bonds with a face value of $3,000,000 paying fixed interest of 5% over five years. Redeemed 30 June 20X9.
- ii 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).
- iii Loan to sporting club
  $1,000,000 interest free loan repayable five years from date of issue. Provided on 1 July 20X5. Repaid in July 20Y0.

b Financial liabilities

- i Loan from NSW Government
  $10,000,000 interest free loan repayable by equal annual instalments over 10 years. Raised on 30 June 20X6.

Classification of the financial instruments is as follows:

c Amortised cost

- i government bonds
- ii term deposit
- iii loan to sporting club
- iv loan from NSW Government.

Measurement – amortised cost

- 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 20X5 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 Council 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 20X5:			
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.			

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.			

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 20Y0 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.			

f. 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

		$'000	
Carrying value of bulk earthworks at 30.6.20Y0 before revaluation		40,037	
Replacement cost of bulk earthworks at 30.6.20Y0		200,000	
Bulk earthworks are non-depreciable, so the revaluation entries are as follows:			
	Revaluation entries:		
	As at 30.6.Y0	**$'000**	**$'000**
Dr	Bulk earthworks	159,963	
Cr	Asset revaluation surplus		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 and identification of previously unrecorded assets

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
Carrying value	19,147

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

		$'000	
Fair value (being land not recorded $200m, land incorrectly classified $100m and revaluation of existing land $200m)		**500,000**	
(there is an assumption in this example that values could not be determined prior to 30.6.Y1)			
Correction of errors:			
	As at 30.6.Y1	**$'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 surplus

	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 surplus		180,853

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

	As at 30.6.Y1		
Dr	Asset revaluation surplus	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 relevant 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

a. Entries at purchase date			
Dr	Investment properties	$500,000	
Cr	Cash		$500,000

b. Entries for 30 June 20X5			
Dr	Investment properties	$100,000	
Cr	Fair value adjustment – Investment properties		$100,000
Being adjustment to fair value – the fair value measurement is taken through the Income Statement.			

c. 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.			

d. 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.			

Reminder: all adjustments to fair value for investment properties are recorded in the income statement rather than a revaluation surplus.

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

References to Councils in this appendix apply equally to JO's unless otherwise stated.

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

IDENTIFY any external entities that could be subject to AASB10-12 and AASB 128:

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.

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*)

APPLY the appropriate disclosures:

a The *Code of Accounting Practice and Financial Reporting* General Purpose Financial Statements – Section 1 and this Appendix as well as AASB 12 contain 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.

The disclosures below are for specific situations and should be included in the notes to the general purpose financial statements if relevant to Council during the reporting period.

Subsidiaries with material non-controlling interest

	(Name of subsidiary 1)		(Name of subsidiary 2)	
	20X1	20X0	20X1	20X0
% ownership held by non-controlling interest (NCI)				
	$'000	**$'000**	**$'000**	**$'000**
Profit (/loss) allocated to NCI	-	-	-	-
Accumulated NCI of subsidiary	-	-	-	-
Dividends paid to NCI	-	-	-	-
Summarised Statement of Financial Position				
Current assets	-	-	-	-
Non-current assets	-	-	-	-
Current liabilities	-	-	-	-
Non-current liabilities	-	-	-	-
Net assets	-	-	-	-
Summarised Statement of Income and Other Comprehensive Income				
Revenue	-	-	-	-
Profit (/loss)	-	-	-	-
Total comprehensive income	-	-	-	-
Summarised Statement of Cash Flows				
Cash flows from operating activities	-	-	-	-
Cash flows from investing activities	-	-	-	-
Cash flows from financing activities	-	-	-	-
Net increase (/decrease) in cash and cash equivalents	-	-	-	-

Disposal of a subsidiary that results in the loss of control

If a council has disposed of a subsidiary which has resulted in a loss of control, the information below should be included.

On [insert date], the council disposed of xx% of its interest in [enter name of entity].

A [profit/loss] of $xx after income tax was attributable to council from the disposal and is recorded in the other [income/expenses] line in the Income Statement.

The carrying amount of the net assets of [enter name of entity] at the date of disposal were:

	$'000
Cash and cash equivalents	
Receivables	
Inventory	
Enter description	
Total current assets	
Property, plant and equipment	
Intangible assets	
Enter description	
Total non-current assets	
Trade payables	
Provisions	
Enter description	
Total current liabilities	
Net assets	
Total consideration	
- Received in cash	
- Cash and cash equivalents disposed of	
Net cash received	
Net profit(/loss) on disposal	

Consequences of changes in a council's ownership interest in a subsidiary that do not result in a loss of control

If a council has acquired / disposed of a subsidiary which has not changed control, the information below should be included.

Disposal of ownership interest

During the year council disposed of xx% of its investment in [name of subsidiary]. Control was, however, maintained and therefore the group structure did not change, although the non-controlling interest increased.

The effect of this transaction on the equity attributable to council is shown below:

	[year end date] $
Consideration received	
Less: increase in net assets attributable to non-controlling interest	
Increase (/decrease) in council interest	

Note: the increase/decrease to council interest is recorded in the transactions with non-controlling interest reserve.

Acquisition of ownership interest

During the year council acquired xx% additional interest in [name of subsidiary]. Control was maintained, and therefore the group structure did not change, although the non-controlling interest decreased.
The effect of this transaction on council interest is shown below:

	[year end date] $
Non-controlling interest acquired	
Less: consideration paid	
Increase (/decrease) in council interest	

Note: the increase/decrease to council interest is recorded in the transactions with non-controlling interest revenue.

Interest in unconsolidated structured entities

If the council has any unconsolidated structured entities (as defined in AASB 12), such as involvement with a community organisation, then the note below needs to be included.

Nature of Interests

Provide details, including but not limited to the nature, purpose, size and activities of the structured entity, as well as to how it is financed.

Sponsored unconsolidated structured entities

Provide details regarding how Council has determined which structured entities it has sponsored.

Structured entity type	**Total income**				**Assets transferred to structured entities**	
	[income categories]				**Carrying amount**	**Fair value**

For example:

Council considers itself the sponsor of a structured entity where it is primarily involved in the design and establishment of the structured entity. Council also transfers assets to the sponsored structured entity, it markets products associated with the structured entity in its own name and provides guarantees regarding the structured entity's performance.

For some sponsored entities, Council has no interest at the reporting date. However, it has sold assets to those entities with no continuing involvement during the reporting period, and has earned fees for selling those assets, and for other transactions carried out for the entity.

Nature of risk

Carrying amount of assets and liabilities.

The following table shows the carrying amounts of the assets and liabilities recognised in the council financial statements relating to its interests in unconsolidated structured entities.

Financial statement line item	Loans	Investments	Commitments /guarantees	Derivative instruments	Total Assets	Total liabilities
Total						

Maximum exposure to loss

The maximum exposure to loss shown in the table below is contingent in nature and may arise as a result of the provision of liquidity facilities and other funding commitments provided by the Council to unconsolidated structured entities in which it has an interest at [year-end date].

Provide details of how the maximum exposure to loss was determined.

Structured entity type	Maximum exposure to loss				Carrying amount of assets/liabilities that relates to unconsolidated structured entities	
	Loans	Investments	Commitments /guarantees	Total	Assets	Liabilities

Financial support provided without a contractual obligation

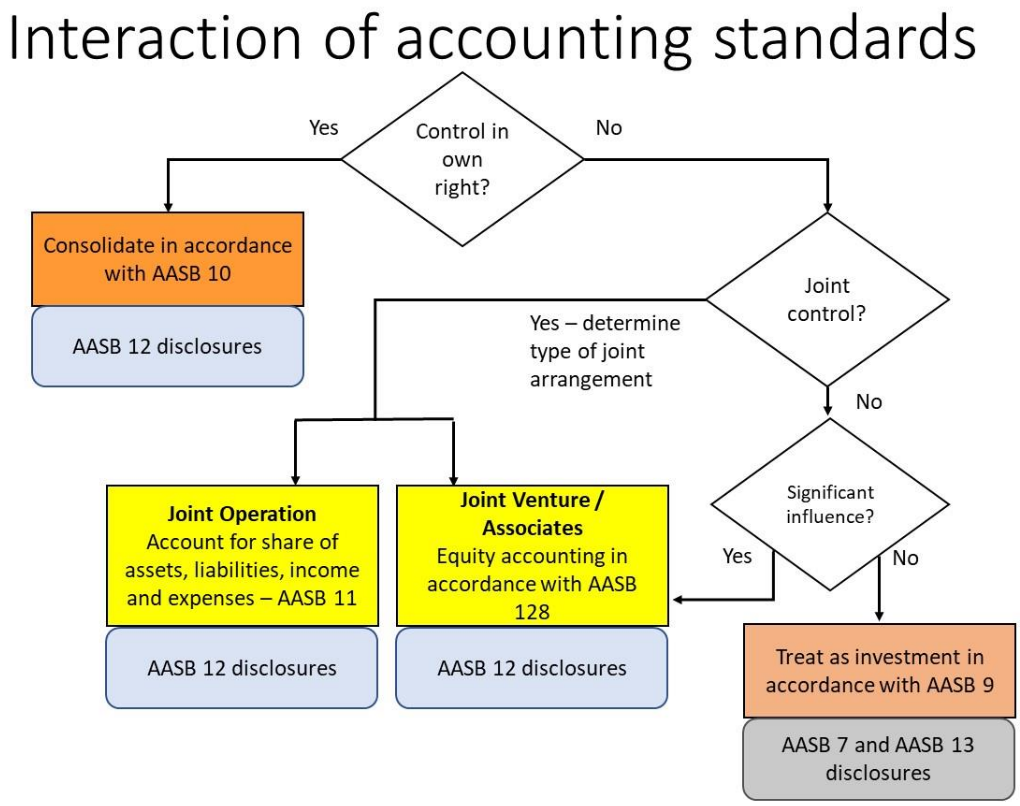
Provide details of financial support which was provided by the council without having a contractual obligation to do so, including the type and amount of support provided (including situations in which the council assisted the structured entity in obtaining financial support), and the reasons for the support.

Current intentions to provide financial or other support

Provide details of any current intentions to provide financial or other support to an unconsolidated structured entity or entities, including intentions to assist the structured entity in obtaining financial support.

Interaction of accounting standards

The following guidance is presented to assist Council in complying with the consolidation suite of accounting standards.

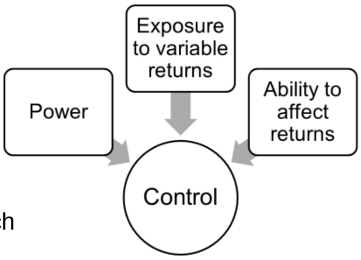


AASB10 Consolidated Financial Statements

- An entity that is a parent shall present consolidated financial statements:
- A **parent** is an entity that controls one or more entities.
- A **subsidiary** is an entity that is controlled by another entity (i.e. the parent).
- 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'.

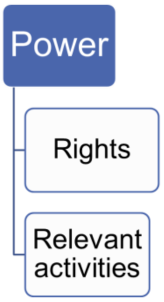


  b Key concepts for not-for-profit entities

    i 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.
    ii The investor need not have a financial interest.

  c What is power?

    i Power is defined as existing rights that give the current ability to direct the relevant activities of the investee.



- need to have current ability – i.e. able to make decisions at the time the decisions need to be made – substantive rights.

    ii What are the rights of the investor?

      - voting rights
      - potential voting rights
      - other contractual arrangements

- a combination of any or all of the above.

iii What are the relevant activities?
iv Do the rights give the investor the ability to direct the relevant activities?

d Power

i Rights which indicate power often arise from contractual or statutory agreements in place (e.g. rights from administrative arrangement or statutory provisions).
ii 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

i Substantive – practical ability to exercise right.
ii 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.

iii Protective rights alone do not give power.

f Rights

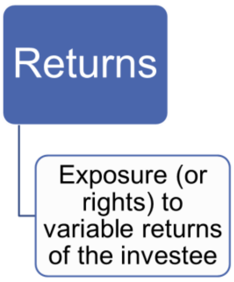
i Political, cultural, social or similar types of barriers might make it difficult for the investor to exercise rights in relation to the investee – this would not prevent rights from being substantive, e.g.:

- power to appoint and remove members of railway authority without cause – reluctance to do this due to sensitivity in the electorate.

g Variable returns

i broad definition of returns:

- dividends
- remuneration from services
- fees and exposure to losses
- residual interests on liquidation
- returns not available to other investors.



ii variable returns – potential to vary as a result of the investee's performance
iii Multiple parties can be exposed to variable returns.

h Returns – NFP considerations

i 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

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

j Agent vs principal

i Agency relationship – A principal contracts another party to perform specified services on behalf of the principal that involve delegating some authority to the agent.
ii Delegated power does not mean control – many agent contracts provide power not control or judgement.
iii 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

i 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.

ii 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.

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.

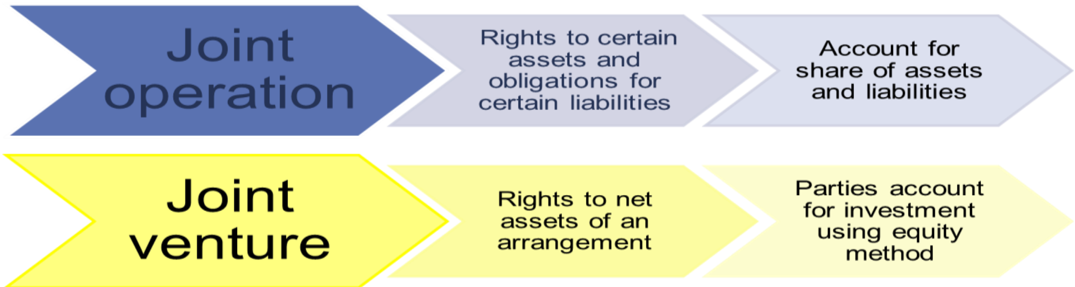
A joint arrangement has the following characteristics:

- 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.

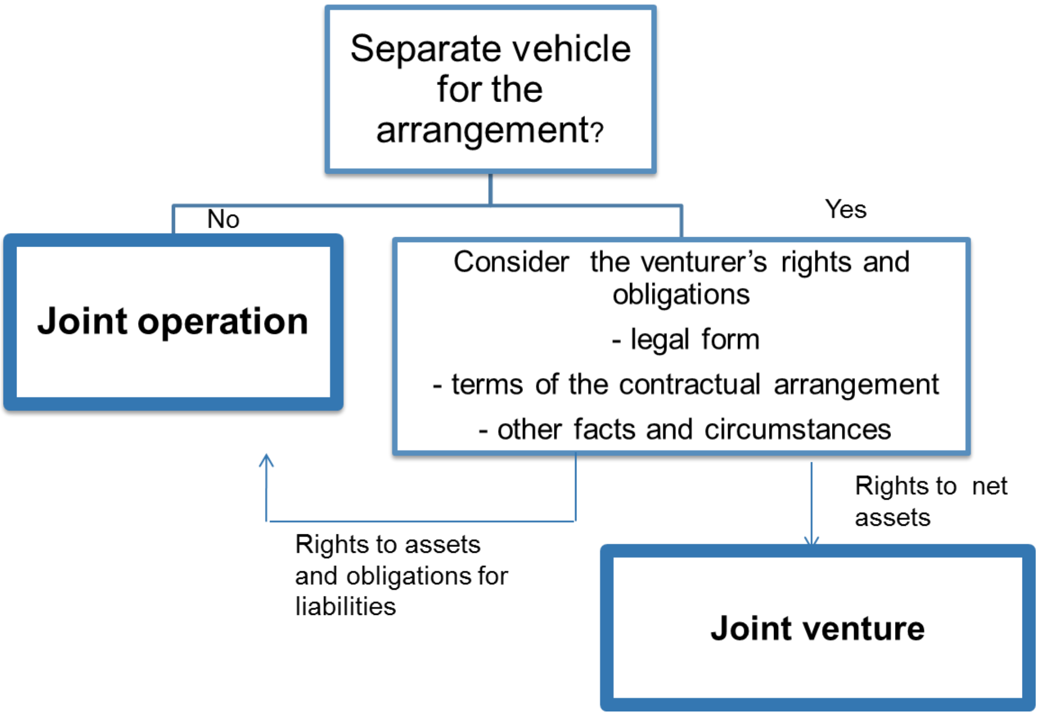
Classifying joint arrangements

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



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

  - Disclosure only standard
  - 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 1 - General Purpose financial statements for illustrative disclosures, additional disclosures for certain scenarios presented in this appendix 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*

References to Councils in this appendix apply equally to JO's unless otherwise stated. The disclosure requirements for JO's are lower than for Councils – JO's should refer to AASB 1060 and the JO Code – section 2.

The implementation guidance to AASB 124 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. This could be an indicator that the information is useful to the users.

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 2022* (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 as '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 also 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 for Councils

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: a short-term employee benefits b post-employment benefits c other long-term benefits d termination benefits, and e share-based payment.	Key management personnel (KMP) are not named – disclosure on an 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: i the amount of the transactions ii the amount of outstanding balances, including commitments, and iii terms and conditions (i.e. secured or unsecured) and the nature of consideration to be provided in settlement; and iv details of guarantees given or received	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.

	v provisions for doubtful debts related to the amount of outstanding balances, and vi the expense recognised during the period relating to bad or doubtful debts due from related parties.	
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

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.

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.)

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.

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.

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.

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

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.

Councillor elections / other KMP staff changes

Councils should ensure that Councillors / KMP provide relevant information prior to election day / resignation date to ensure Council can prepare disclosures for the KMP note at the reporting date.

Education sessions for new Councillors and KMPs may be useful to allow them to understand the process and the required information.

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.

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 purchased most/all newspapers, magazines, paper supplies etc 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.

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 in 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

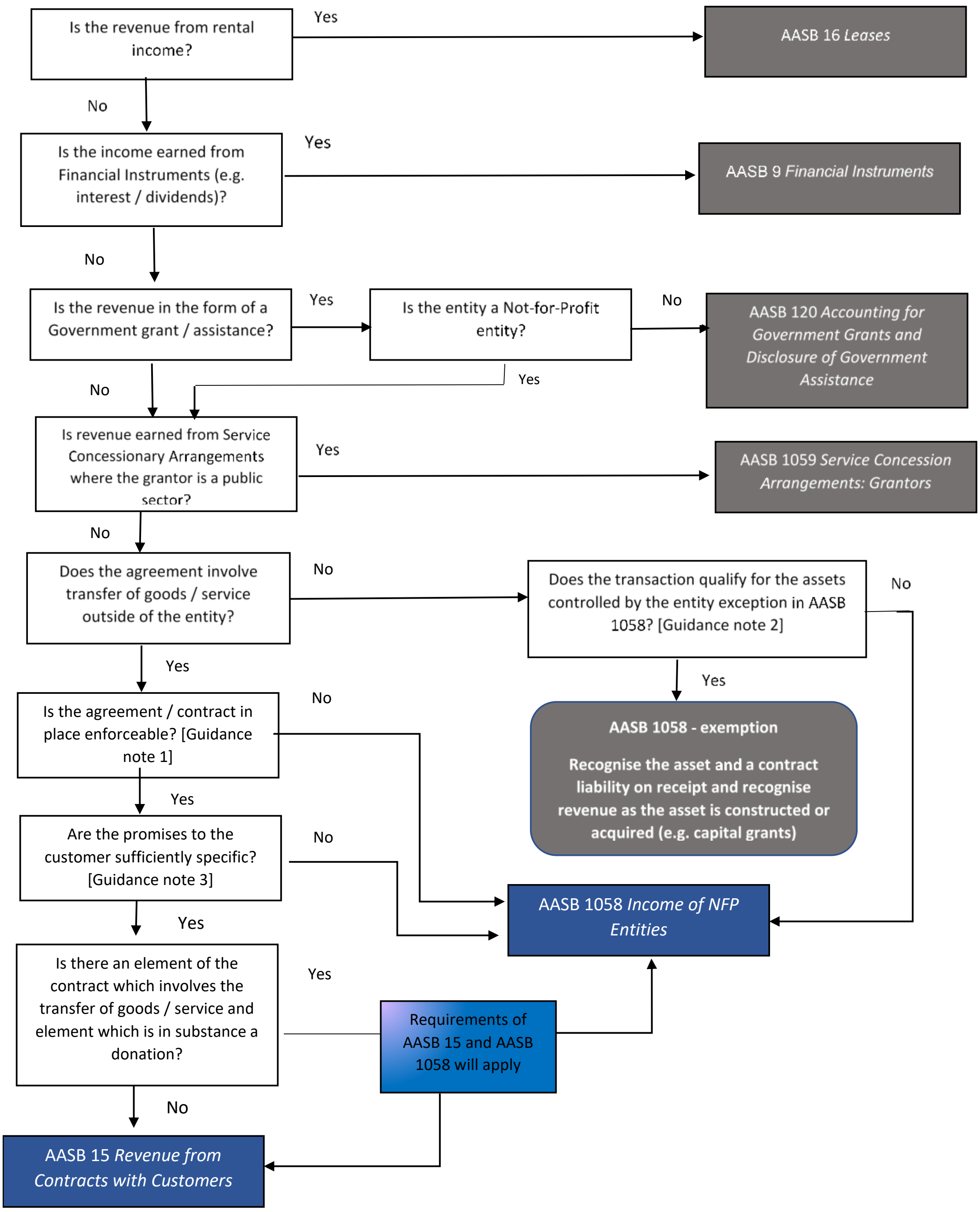
References to Councils in this appendix apply equally to JO's unless otherwise stated.

Which standard?

There are two revenue standards for not-for-profit entities (including Councils and JO's) and therefore Councils have to firstly determine which is the relevant standard for each revenue stream and agreements within those streams. The standard used will impact the timing and amount of revenue.

Revenue streams such as grants could be in one or both standards 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. OLG has mandated certain options which are included in the attached mandates of options paper.

Guidance on revenue accounting standards

An array of resources remain available to provide direction and assist councils in the ongoing compliance with the revenue accounting standards. Resources can be accessed here.

Additionally, analysis of some common revenue agreements can be accessed via the OLG Council Portal here.
Further to the OLG guidance, the AASB have released FAQ's for NFP entities in relation to the revenue standards which can be accessed here.

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 focuses on transfer of 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.

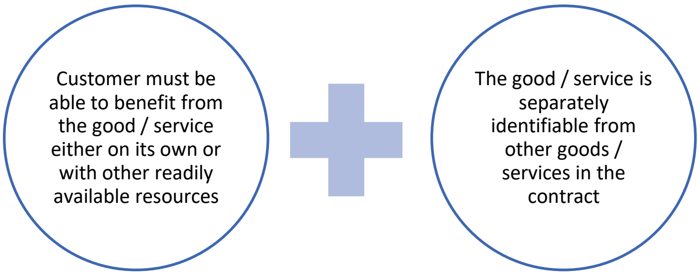
The following steps of AASB 15 are likely to have the most significant estimates and judgements for Councils and therefore some additional guidance in included in this appendix as well as some illustrative examples:

- 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.

The following two criteria must be met in order an activity to meet the definition of a performance obligation.



Councils need to consider the promises they agree to within the contracts to determine their performance obligations. Performance obligations are not usually the same as payment milestones nor progress reports and must require a transfer of goods / services to a party external to Council.

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) since this may affect the recorded revenue per the diagram below:

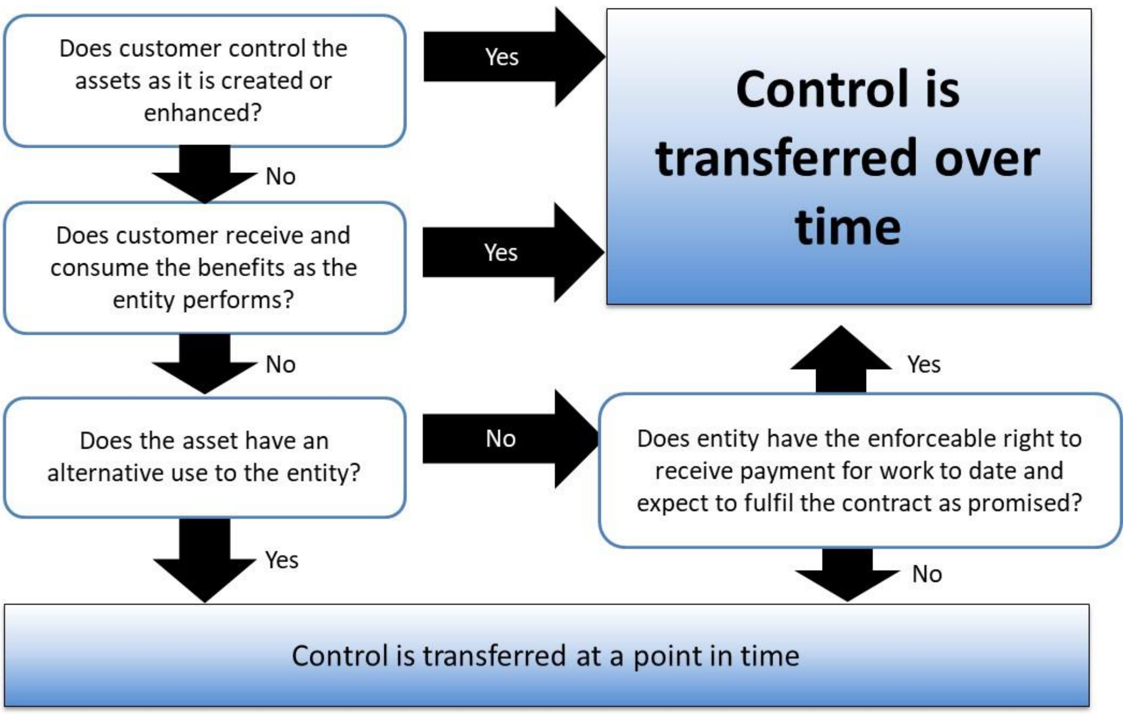
Step 5: Recognise revenue as / when control is transferred

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).

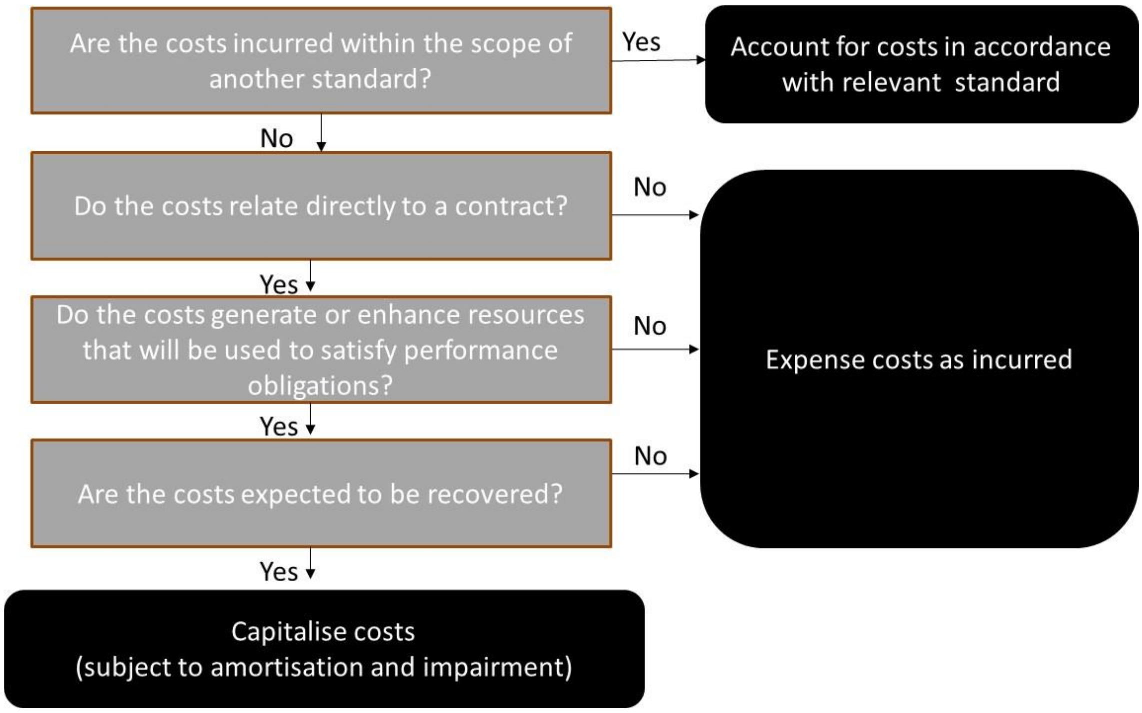
Provision of services are considered an asset for the purpose of this assessment of control transfer.

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 required to expend all their contribution prior to the fund provider having any obligation to provide funding.

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, i.e. whether the costs should be immediately expensed or capitalised as a contract cost asset.



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 for their leisure centre in books of 10, 20 and 50. These are purchased 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 (or at expiry for unused visits) 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 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.

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 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.

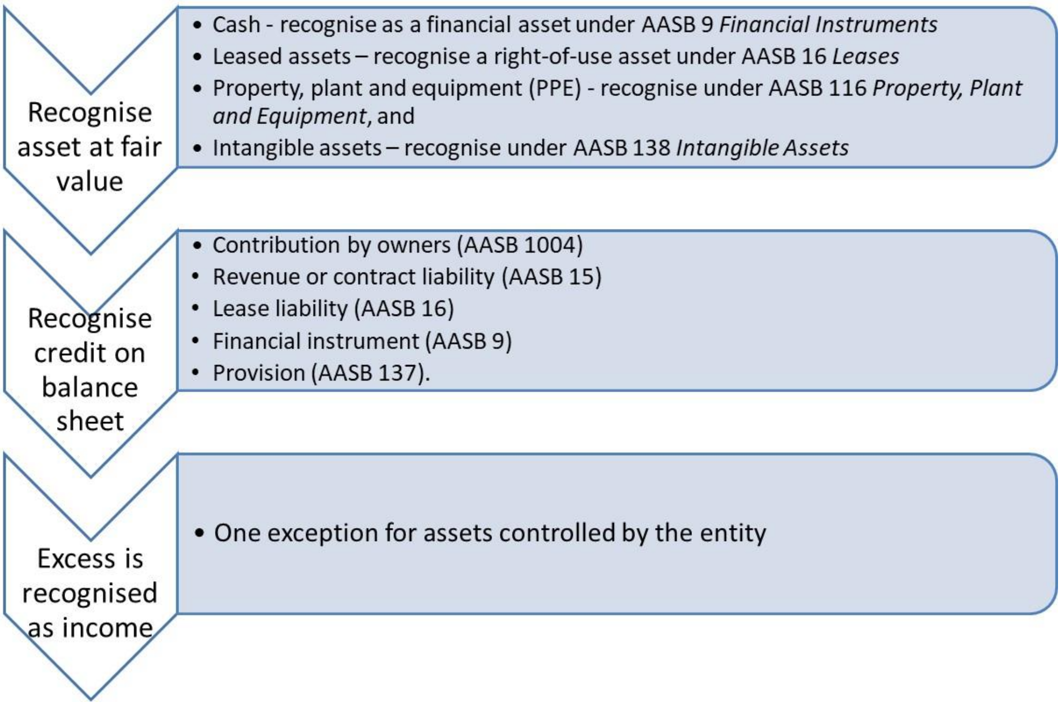
If a grant has been received by Council to further its objectives with no specific obligations, a Council will recognise revenue under AASB 1058 (or earlier if control of an asset (e.g. receivable) can be demonstrated).

Councils are required to fair value any asset they received where the consideration paid by Council for the asset was significantly less than fair value which will mean that more assets will need to be fair valued on day 1, for example:

Building purchased by Council for $600k (fair value of building was $1m) since vendor wanted to provide to Council for the purpose of the art gallery. The building has been purchased for significantly less than fair value and therefore under AASB 1058, it would be recorded at $1m with a $400k income recorded.

At acquisition date, Dr: Asset $1m. Cr: Cash $600k, Cr: Income $400k.

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 Council's control.

For capital grants received by Council, Councils consider whether each of 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.

Example - Exception for assets controlled by Council

Council successfully applies for a $20m grant to contribute to the development of an art museum and the fund provider specifies many components of the project as well as approval of plans etc.

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 signing of the contract.

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.

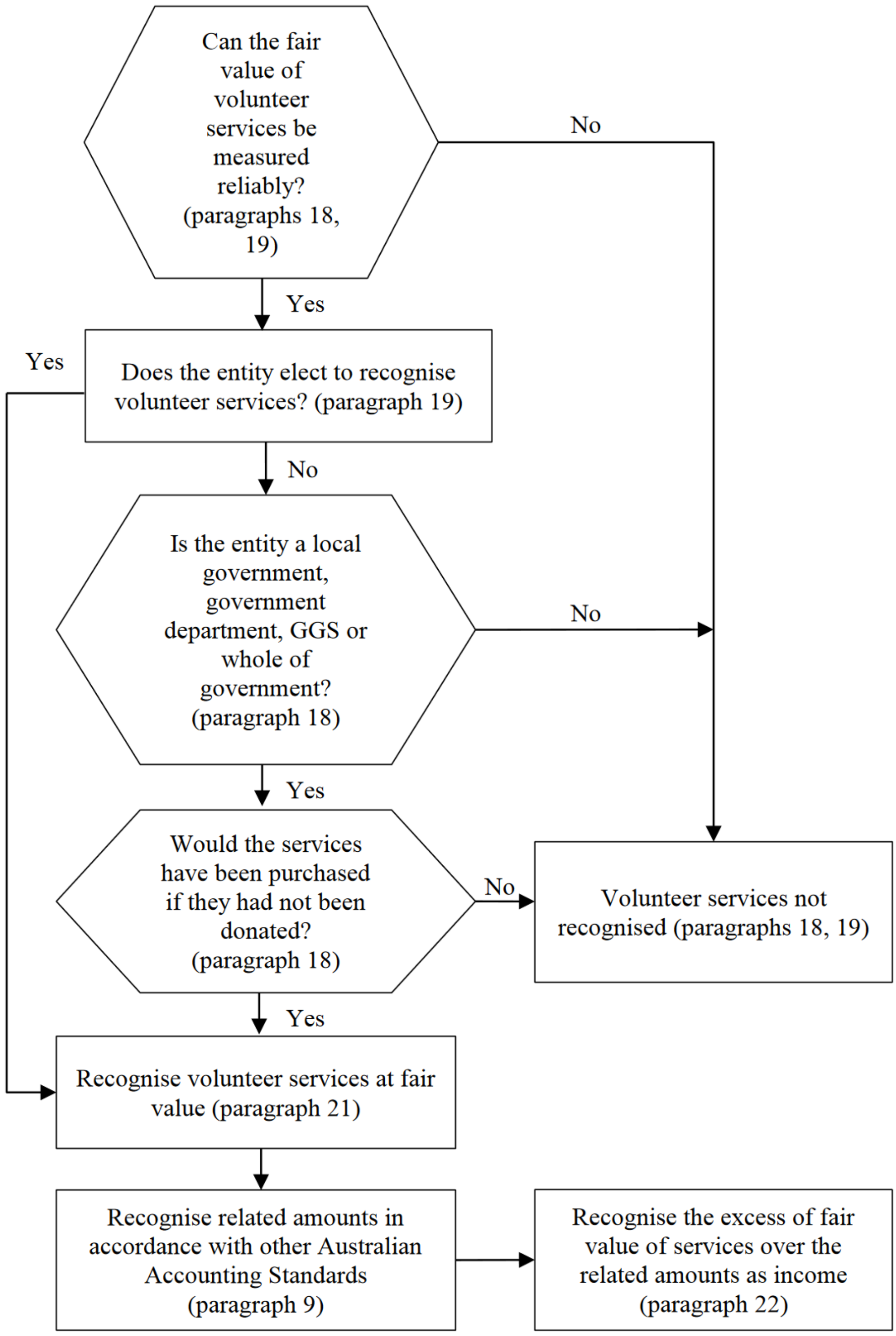
The funds are recorded as a contract liability on receipt and recognised as revenue as and when the construction is performed. Council determines that the costs incurred on the projects appropriately reflects the progress towards completion of the museum and since the building is on Council land, the benefit transfers during construction.

Receipt of cash:

On receipt of cash:		
Dr	Cash	$20,000,000
Cr	Contract liability	$20,000,000
As costs are incurred:		
Dr	Capital WIP	
Dr	Contract liability	
Cr	Cash / payables	
Cr	Revenue	
On completion of the building:		
Dr	IPPE – Art museum	$20,000,000
Cr	Capital WIP	$20,000,000

Volunteer services

AASB 1058 contains requirements in relation to volunteer services as illustrated in the following decision tree.



Councils should consider the volunteer services received. If councils have not recognised volunteer services, 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

References to Councils in this appendix apply equally to JO's unless otherwise stated. The guidance in this appendix relates to lessees since the accounting for lessors is based on the long-standing concept of operating and finance leases.

Accounting policy options

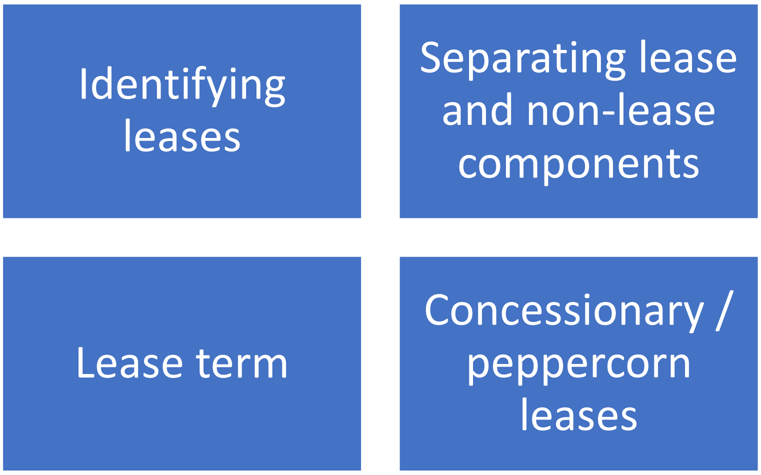
There are a number of accounting policy choices within AASB 16. OLG has mandated certain options which are included in the attached mandates of options paper.

Guidance on accounting standards

An array of resources remain available to provide direction and assist councils in the ongoing compliance with AASB 16. Resources can be accessed here

Additionally, analysis of some common lease agreements can be accessed via the OLG Council Portal here

The common areas of concern with AASB 16 are:

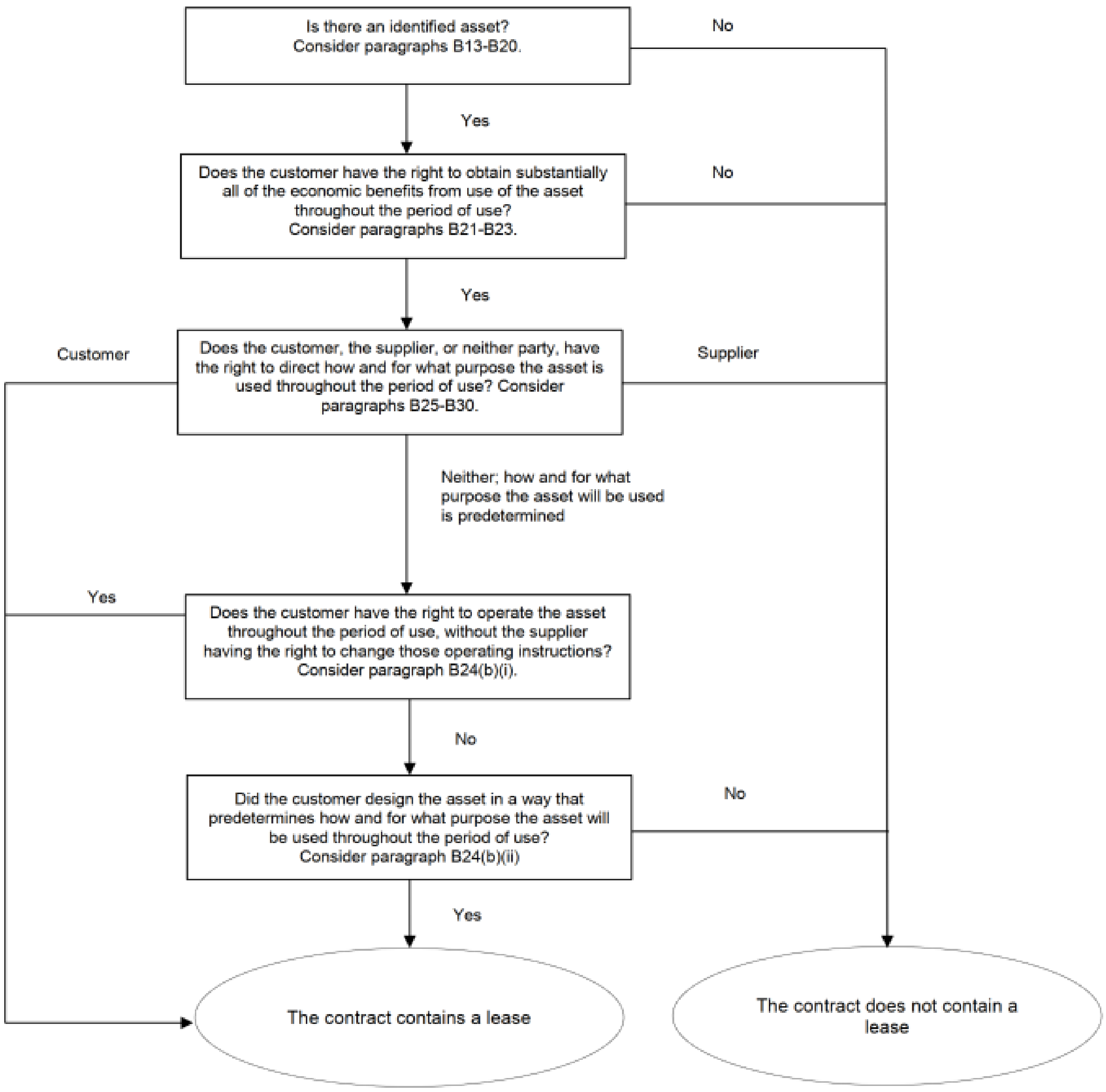


Identifying leases

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 and implement a process to identify new agreements which may contain leases on an ongoing basis, this should be reviewed at each reporting date.



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 (e.g., labour, waste processing, fuel costs) to be $225,619.

	Dr $	Cr $	Income statement $	Balance sheet $
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.

	Dr **$**	**Cr** **$**	**Income statement** **$**	**Balance sheet** **$**
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.

A decision by the International Interpretations Committee available here has clarified that penalties are more than just contractual penalties. Considerations can include, for example useful life of leasehold improvements and how specialised the asset is, and therefore costs which may be incurred by either party to find an alternative tenant / suitable asset.

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. 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

<u>Example – Contribution to community facilities in return for right of use</u>

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.

Council needs to assess whether the $10m payment for 10 years usage is significantly below market value. In this example, Council has determined that this would be considered market value and therefore the ROU and lease liability is calculated in accordance with the general requirements of AASB 16.

	Dr **$**	**Cr** **$**	**Income statement** **$**	**Balance sheet** **$**
Initial entries				
ROU asset – non-current (lease liability plus prepaid rent)	10,000,000			
Lease liability		-		
Cash		10,000,000		
Balances at day 1 of the lease				
ROU				10,000,000
Lease liability				
Years 1 – 10 of the lease				
Depreciation	1,000,000			
Accumulated depreciation		1,000,000		

Note: The $1 per year for the land would be deemed not material and therefore no entries are booked relating to this.

Lease example

Background:

- Councils enters into an arrangement for exclusive use of a building on 1 July 20X6
- Payment is fixed at $100,000 per annum – payable on 30 June
- Council incremental borrowing rate = 4.5%
- Lease term is 7 years
- There are no prepayments, initial direct costs or lease incentives.
- Council is required to replace carpet and repaint the walls at the end of the lease. The estimated cost of this at lease commencement date is $12,000 and this cost is expected to increase by 3% each year due to time value of money.

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.

The table below illustrates the first year of accounting entries:

	Dr $	Cr $	Income statement $	Balance sheet $
Initial entries 1 July 20X6				
ROU asset – non-current	601,270			
Lease liability		589,270		
Provision for makegood		12,000		
Balances at 1 July 20X6				
ROU[1]			-	601,270
Lease liability			-	(589,270)
Makegood provisions				(12,000)
Journals – Year ended 30 June 20X7				
Interest expense	26,517			
Lease liability	73,463			
Bank		100,000		
To record annual payment				
Depreciation expense	85,896			
Accumulated depreciation		85,896		
To record depreciation of ROU				
Finance costs	360			
Makegood provision		360		
To record unwinding of discount on provision				
Balances at 30 June 20X7				
ROU			-	515,374
Lease liability			-	(515,807)
Makegood provision				(12,360)
Depreciation expense			(85,896)	
Interest expense			(26,877)	

[1] The formula from AASB 16 should be applied:

ROU = Lease liability + Prepayments + Makegood costs + Initial direct costs – Lease incentive received.

At the end of the lease term, the ROU and lease liability will be nil and the makegood provision should reflect the best estimate of the repainting and recarpeting costs, any difference between estimate and actual is recorded in the income statement,

Appendix L
New standards effective during the year ended 30 June 2024

The following new standards are effective for the first time at 30 June 2024 and are relevant to Councils / JOs.

Standard	Likely impact
AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* **Equivalent standard for JO's is AASB 2021-6 *Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards***	The most significant change introduced by these standards is to remove the requirement to disclose significant accounting policies and instead require disclosure of material accounting policy information. *'Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.'* Accounting policy information is likely to be considered material if that information relates to material transactions, other events or conditions and: • the entity has changed accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements. • the entity (or OLG) chose the accounting policy from one or more options permitted by Australian Accounting Standards. • the accounting policy was developed in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an Australian Accounting Standard that specifically applies. • the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in the financial statements (refer Note A1-1 of Section 1 of the Code and Note A1 of Section 2 of the Code). • the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions. Guidance has been included in sections 1 and 2 of the Code in relation to which accounting policy information is likely to be material, however Councils will need to apply judgement for their specific facts and circumstances.
AASB 2022-7 *Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards*	Due to the nature of the changes, the adoption of this standard is unlikely to have any impact on Councils.

The standard below was effective for the first time but was unlikely to be relevant for Councils

- AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction.*

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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 2024.

Note: this disclosure is not required by JO's.

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 (November 2023). However, councils are required to review the AASB website for standards issued between November 2023 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 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* – Deferral of Effective Date AASB 2022-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants* AASB 2023-3 *Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2* [Applicable to JO's only]
Nature of change in accounting policy	*This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current.* *For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.*
Effective date	Annual reporting period beginning on or after 1 January 2024; i.e., councils' financial statements for the year ended 30 June 2025.
Expected impact on council financial statements	Little impact expected but Councils should consider the appropriate classification of liabilities as current or non-current.

Pronouncement	AASB 2022-5 *Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback*
Nature of change in accounting policy	This Standard amends AASB 16 to add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in AASB 15 Revenue from Contracts with Customers to be accounted for as a sale. AASB 16 already requires a seller-lessee to recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The amendments made by this Standard ensure that a similar approach is applied by also requiring a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that does not recognise any amount of the gain or loss related to the right of use it retains.

Effective date	Annual reporting periods beginning on or after 1 January 2024, i.e., councils' financial statements for the year ended 30 June 2025.
Expected impact on council financial statements **(INDICATIVE WORDING ONLY – COUNCILS SHOULD INSERT INFORMATION RELEVANT TO THEM)**	Unlikely to be significant impact for councils, however requirements should be reviewed if councils are entering into sale and lease back arrangements.

Pronouncement	AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities.*
Nature of change in accounting policy	This Standard amends AASB 13, including adding authoritative implementation guidance and providing related illustrative examples, for application by not-for-profit public sector entities. In particular, this standard provides guidance on: (a) highest and best use (b) financially feasible uses (c) use of assumptions (d) nature of costs to include in the replacement cost of a reference asset and on the identification of economic obsolescence when using the cost approach. Additional guidance on the changes is included in Appendix E.
Effective date	Annual reporting periods beginning on or after 1 January 2024; i.e., councils' financial statements for the year ended 30 June 2025.
Expected impact on council financial statements	There is not expected to be significant impact on the Councils' reported financial position, however Councils should review their fair value methodology to ensure that it is in accordance with the guidance included in AASB 2022-10 using the information and resources in Appendix E..

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 AASB 2021-7 defers the effective date of AASB 2014-10 to 1 January 2025
Effective date	Annual reporting periods beginning on or after 1 January 2025; i.e., councils' financial statements for the year ended 30 June 2026.
Expected impact on council financial statements	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.

(INDICATIVE WORDING ONLY – COUNCILS SHOULD INSERT INFORMATION RELEVANT TO THEM)	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 2026 for public sector entities	Changes to accounting for insurance contracts
AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements*	Annual reporting periods beginning on or after 1 January 2024	Requires additional disclosures about an entity's supplier finance arrangements.
AASB 2023-5 *Amendments to Australian Accounting Standards – Lack of Exchangeability*	Annual reporting periods beginning on or after 1 January 2025	Requires consistency in determining whether a currency is exchangeable into another currency and the spot exchange rate to use when it is not exchangeable.

Appendix N
Significant changes to 2024/25 Code due to accounting standards changes

There are not expected to be any significant changes to the 2024/2025 Code arising from changes to the Australian Accounting Standards.