## Note 1. About this report

The Essential Services Commission (the commission) is a government commission of the State of Victoria, established under the *Essential Services Commission Act 2001.*

Its principal address is:

Essential Services Commission

Level 37

2 Lonsdale Street

Melbourne VIC 3000

A description of the nature of its operations and its principal activities is included in the “Report of operations” which does not form part of these financial statements.

### Basis of preparation

The financial statements are presented in Australian dollars, and prepared in accordance with the historical cost convention, except where noted. Historical cost is based on the fair values of the consideration given in exchange for assets.

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgments derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision.

These financial statements cover the Essential Services Commission as an individual reporting entity and include all the controlled activities of the commission.

All amounts in the financial statements have been rounded to the nearest dollar.

### Compliance

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards (AASs) including interpretations, issued by the Australian Accounting Standards Board (AASB). They are presented in a manner consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Where relevant, those paragraphs of the AASs applicable to not-for-profit entities have been applied. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

## Note 2. Funding delivery of our services

### Introduction

The objective of the commission is to promote the long term interests of Victorian consumers having regard to the price, quality and reliability of essential services. The commission operates under the *Essential Services Commission Act 2001* (“the Act”). The Act designates the commission as an economic regulator and lays a foundation for the commission to perform its functions and exercise its powers in respect of regulated entities providing an essential service operating under relevant legislation and as conferred by or under other specified legislation identified in the Act.

At 30 June 2020 the regulated industries included electricity, gas, water and sewerage, ports, taxis and rail freight. Functions conferred under other legislation related to energy industry compliance and enforcement, energy efficiency, accident towing and local government.

The commission is predominantly funded by accrual based Parliamentary appropriations for the provision of outputs. These appropriations are received by the Department of Treasury and Finance (DTF) and on forwarded to the commission in the form of grants.

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
|  | **$** | **$** |
| **Income from transactions** |  |  |
| Grants from Department of Treasury and Finance | 27,877,544 | 24,972,374 |
| Grants from other government departments | 557,123 | - |
| Resources received free of charge | 293,489 | 377,165 |
| **Total income from transactions** | **28,728,156** | **25,349,539** |

Income is recognised to the extent it is probable the economic benefits will flow to the commission and the income can be reliably measured. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes. All amounts of income over which the commission does not have control are disclosed as administered income (see Note 4).

### Grants

The impact of initially applying AASB 1058 on the commission’s grant revenue from DTF is described in Note 9.2.3. Due to the modified retrospective transition method chosen in applying AASB 1058, comparative information has not been restated to reflect the new requirements. The adoption of AASB 1058 did not have an impact on comprehensive operating statement and the cash flow statement for the financial year.

Income from grants that are enforceable and with sufficiently specific performance obligations and accounted for as revenue from contracts with customers is recognised when the commission satisfies the performance obligation. This is recognised based on the consideration specified in the funding agreement and to the extent that it is highly probable a significant reversal of the revenue will not occur. The funding payments are normally received in advance or shortly after the relevant obligation is satisfied.

Income from grants without any sufficiently specific performance obligations, or that are not enforceable, is recognised when the commission receives the cash.

The commission has determined grant revenue from other government departments to be enforceable and with sufficiently specific performance obligations to be accounted for as revenue from contracts with customers in accordance with AASB 15.

### Resources received free of charge

DTF provides certain administrative services to support the operations of the commission which is recognised as services provided as resources received free of charge. The corresponding expense is included as other expenses in Note 3.2.

## Note 3. The cost of delivering services

This section provides an account of the expenses incurred by the commission in delivering services.

3.1. Employee expenses

 3.1.1. Employee expenses in the comprehensive operating statement

 3.1.2. Employee related provision in the balance sheet

3.2. Supplies and services

### Expenses incurred in delivery of services

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **2020** | **2019** |
|  | **Notes** | **$** | **$** |
| Employee expenses  | 3.1.1 | 18,135,730 | 14,722,716 |
| Depreciation and amortisation | 5.1.1 | 316,512 | 35,374 |
| Lease interest (2019: finance lease interest) |  | 32,220 | 439 |
| Capital asset charge |  | 84,067 | 84,067 |
| Supplies and services | 3.2 | 9,971,272 | 8,711,830 |
| **Total expenses incurred in delivery of services** |  | **28,539,801** | **23,554,426** |

### 3.1 Employee expenses

#### 3.1.1. Employee expenses in the comprehensive operating statement

|  |  |  |
| --- | --- | --- |
| **Salaries and wages** | **13,668,518** | **11,298,880** |
| **Superannuation** |  |  |
| - Defined contribution plans | 1,327,571 | 1,149,346 |
| - Defined benefits expense | 14,300 | 14,876 |
| Annual and long service leave expense | 2,262,400 | 1,519,204 |
| On-costs | 862,941 | 740,410 |
| **Total employee expenses** | **18,135,730** | **14,722,716** |

Employee expenses comprise all costs related to employment including wages and salaries, superannuation, leave entitlements, redundancy payments, fringe benefits tax, and WorkCover premiums.

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

Superannuation expenses represent the employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period.

DTF centrally recognises, on behalf of the State as the sponsoring employer, the net defined benefit cost and the defined benefit liability or surplus related to the members of these plans as administered items. Refer to DTF’s annual financial statements for more detailed disclosures in relation to these plans.

Employees of the commission are entitled to receive superannuation benefits and the commission contributes to both defined benefit and defined contribution plans. The defined benefit plans provide benefits based on years of service and final average salary. The basis for contributions are determined by the various schemes.

Superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of the commission.

#### 3.1.2. Employee related provisions in the balance sheet

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

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
| **Provisions** | **$** | **$** |
| **Current:** |  |  |
| **Annual leave** |  |  |
| - Unconditional and expected to settle within 12 months | 1,204,422 | 777,768 |
| - Unconditional and expected to settle after 12 months | 331,373 | 184,083 |
| Long service leave |  |  |
| - Unconditional and expected to settle within 12 months | 332,894 | 279,644 |
| - Unconditional and expected to settle after 12 months | 2,131,729 | 1,758,885 |
| Performance bonus | - | 36,500 |
| **Total current employee related provisions** | **4,000,418** |  **3,036,880** |
|  |  |  |
| **Non-current:**  |  |  |
| Long service leave | 489,553 | 330,337 |
| **Total non-current employee related provisions** | **489,553** | **330,337** |
|  |  |  |
| **Total provisions for employee benefits** | **4,489,971** |  **3,367,217** |

Provisions made in respect of employee benefits expected to be wholly settled within 12 months are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be wholly settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the commission in respect of services provided by employees up to reporting date. The liability is classified as a current liability where the commission does not have an unconditional right to defer settlement for at least 12 months after the reporting date. The long service leave liability is classified as non-current where the commission has an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service.

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

### 3.2. Supplies and services

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
|  | **$** | **$** |
| **Supplies and services** |  |  |
| Rentals and outgoings | 809,908 | 1,062,367 |
| Purchases of services | 6,462,881 | 5,303,006 |
| Other | 2,698,483 | 2,346,457 |
| **Total supplies and services** | **9,971,272** | **8,711,830** |

Supplies and services are recognised as an expense in the reporting period in which they are incurred.

Rental payments up until 30 June 2019 are recognised as an expense in the comprehensive operating statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

From 1 July 2019, the following lease payments are recognised on a straight-line basis:

* Low-value leases – leases with the underlying asset’s fair value (when new, regardless of the age of the asset being leased) is no more than $10,000.

Variable lease payments not included in the measurement of the lease liability (i.e. variable lease payments that do not depend on an index or a rate, initially measured using the index or rate as at the commencement date) are recognised in the period in which the event or condition that triggers those payments occur.

Other include mainly sundry expenses such as software maintenance and licences, advertising and promotions and other office related expenses.

## Note 4. Administered items

In addition to the specific controlled operations which are included in the balance sheet, comprehensive operating statement, statement of equity and cash flow statement, the commission administers or manages activities on behalf of the State. The transactions relating to these State activities are reported as administered in this note. Administered transactions give rise to income, expenses, assets and liabilities and are determined on an accrual basis. Administered income consists principally of licence fees. Administered assets include licence fee income earned but yet to be collected. Licence fees are accrued on the basis of a determination made by the Assistant Treasurer.

The commission acts on behalf of the Victorian Government in collecting licence fees administered by the commission under the *Electricity Industry Act 2000*, the *Gas Industry Act 2001*, and the *Water Industry Act 1994*, and Victorian Energy Efficiency certificates issued under the *Victorian Energy Efficiency Target Act 2007*, and penalties issued under these acts and the *Essential Services Commission Act 2001*.

These and certain other administered revenues are collected by the commission but not controlled by it, and are not recognised as revenues/receivables within the body of the financial statements, but are reported as administered revenues/receivables. Such amounts are required to be paid to the Consolidated Fund.

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
|  | **$** | **$** |
| **Administered income from transactions** |  |  |
| Licence and other fees | 24,546,424 | 17,387,249 |
| **Total administered income from transactions** | **24,546,424** | **17,387,249** |
|  |  |  |
| **Administered expenses from transactions** |  |  |
| Payments into the Consolidated Fund | 18,251,456 | 16,535,487 |
| **Total administered expenses from transactions** | **18,251,456** | **16,535,487** |
| **Administered net result**  | **6,294,968** | **851,762** |
|  |  |  |
| **Administered assets** |  |  |
| Debtors | 143,343 | 63,796 |
| Amounts receivable from government departments | 65,976 | - |
| Accrued income | 15,337,495 | 9,122,074 |
| **Total administered assets** | **15,546,814** | **9,185,870** |
|  |  |  |
| **Administered liabilities** |  |  |
| GST payable | 65,976 | - |
| **Total administered liabilities** | **65,976** | **-** |
|  |  |  |
| **Administered net assets** | **15,480,838** | **9,185,870** |

The impact of initially applying AASB 1058 on the commission’s licence and other fees is described in Note 9.2.3. Due to the modified retrospective transition method chosen in applying AASB 1058, comparative information has not been restated to reflect the new requirements. The adoption of AASB 1058 did not have an impact on comprehensive operating statement and the cash flow statement for the financial year.

## Note 5. Key assets available to support delivery of services

The commission controls property plant and equipment that are utilised in fulfilling its objectives and conducting its activities. They represent the key resources that have been entrusted to the commission to be utilised for delivery of services.

5.1. Property, plant and equipment:

5.1.1. Depreciation and amortisation

5.1.2. Reconciliation of movements in carrying values of property, plant and equipment

5.2. Intangible assets

### 5.1. Property, plant and equipment (a)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Gross carrying amount** | **Accumulated depreciation** | **Net carrying amount** |
|  | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
|  | **$** | **$** | **$** | **$** | **$** | **$** |
| Leasehold improvements | 131,061 | 106,470 | (70,980) | (49,686) | 60,081 | 56,784 |
| Office and computer equipment at fair value | 36,308 | 23,140 | (24,896) | (23,140) | 11,412 | - |
| Motor vehicle under lease (2019: finance lease) | 105,367 | 37,865 | (20,914) | (21,879) | 84,453 | 15,986 |
| Construction in Progress – Building | 139,716 | 139,716 | - | - | 139,716 | 139,716 |
| Construction in Progress – Plant & Equipment | 37,902 | 37,902 | - | - | 37,902 | 37,902 |
| **Net carrying amount**  | **450,354** | **345,093** | **(116,790)** | **(94,705)** | **333,564** | **250,388** |

*(a) AASB 16 Leases has been applied for the first time from 1 July 2019. From 1 November 2019, lease payments on the commission’s accommodation are recognised in DTF’s Administered items, following the implementation of the Centralised Accommodation Management strategy across the whole of government. The Centralised Accommodation Management strategy is described in Note 9.2.1.*

### Initial recognition

Items of property, plant and equipment, are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

The cost of leasehold improvements is capitalised as an asset and depreciated over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter.

The initial cost for non-financial physical assets under a finance lease is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

### Subsequent measurement

Property, plant and equipment are subsequently measured at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the asset’s highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset).

#### 5.1.1. Depreciation and amortisation

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
| **Charge for the period (a)** | **$** | **$** |
| Buildings (b) | 284,290 | - |
| Leasehold improvements | 21,293 | 21,294 |
| Office and computer equipment | 1,756 | 832 |
| Motor vehicles under lease (2019: finance lease) | 9,173 | 13,248 |
| **Total depreciation and amortisation** | **316,512** | **35,374** |

*(a) The table incorporates depreciation of right-of-use assets as AASB 16 Leases has been applied for the first time from 1 July 2019.*

*(b) From 1 November 2019, lease payments on the commission’s accommodation are recognised in DTF’s Administered items, following the implementation of the Centralised Accommodation Management strategy across the whole of government. The Centralised Accommodation Management strategy is described in Note 9.2.1.*

All plant and equipment and intangible produced assets that have finite useful lives are depreciated.

Depreciation is calculated on a straight line basis at rates that allocate the asset’s value, less any estimated residual value, over its expected useful life.

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

Intangible produced assets with finite useful lives are depreciated as an expense from transactions on a straight line basis over the asset’s useful life. Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Typical estimated useful lives applicable for the years ended 30 June 2020 and 30 June 2019 are as follows:

|  |  |
| --- | --- |
| Leasehold improvements | 4-10 years |
| Office and computer equipment | 3-10 years |
| Motor vehicles under finance lease | 2-3 years |
| Capitalised software development | 3-7 years |

The estimated useful lives, residual values and depreciation method are reviewed at least annually.

### Impairment of non-financial assets

All non-financial physical assets and intangible assets, except non-financial physical assets held for sale, are assessed annually for indications of impairment. If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset’s carrying value exceeds its recoverable amount, the difference is written off to other economic flows except to the extent that the write-down can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a reversal in the estimate of an asset’s recoverable amount since the last impairment loss was recognised, the carrying amount shall be increased to its recoverable amount. The impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

#### 5.1.2. Reconciliation of movements in carrying values of property, plant and equipment

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Buildings** | **Leasehold improvements** | **Office and computer equipment** | **Motor vehicles under lease (2019: finance lease)** | **Construction in Progress – Building** | **Construction in Progress – Plant & Equipment** | **Total** |
|  | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| **2020** |  |  |  |  |  |  |  |
| Carrying amount at start of year (a) | - | 56,784 | - | 15,986 | 139,716 | 37,902 | 250,388 |
| Recognition of right- of-use assets on initial application of AASB 16 (b) | 4,834,480 | - | - | - | - | - | 4,834,480 |
| Additions | - | 24,590 | 13,168 | 118,264 | - | - | 156,022 |
| Disposals | - | - | - | (40,624) | - | - | (40,624) |
| Depreciation expense | (284,290) | (21,293) | (1,756) | (9,173) | - | - | (316,512) |
| Transfers to held for sale | - | - | - | - | - | - | - |
| Transfers to DTF – Centralised Accommodation Strategy (c) | (4,550,190) | - | - | - | - | - | (4,550,190) |
| **Carrying amount at end of year** | **-** | **60,081** | **11,412** | **84,453** | **139,716** | **37,902** | **333,564** |
|  |  |  |  |  |  |  |  |
| **2019** |  |  |  |  |  |  |  |
| Carrying amount at start of year | -  | 78,077 | 832 | 58,365 | - | 13,059 | 150,333 |
| Additions | - | - | - | 29,601 | 139,716 | 24,843 | 194,160 |
| Disposals | - | - | - | (31,650) | - | - | (31,650) |
| Depreciation expense | - | (21,293) | (832) | (13,248) | - | - | (35,373) |
| Transfers to held for sale | - | - | - | (27,082) | - | - | (27,082) |
| **Carrying amount at end of year** | **-** | **56,784** | **-** | **15,986** | **139,716** | **37,902** | **250,388** |

*(a) The opening balance also includes amounts transferred from finance lease assets (recognised under AASB 117 at 30 June 2019) to right-of-use assets (recognised under AASB 16 at 1 July 2019).*

*(b) This balance represents the initial recognition of right-of-use assets recorded on the balance sheet on 1 July 2019 relating to operating leases.*

*(c) From 1 November 2019, lease payments on the commission’s accommodation are recognised in DTF’s Administered items, following the implementation of the Centralised Accommodation Management strategy across the whole of government. The Centralised Accommodation Management strategy is described in Note 9.2.1.*

### 5.2. Intangible assets

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
|  | **$** | **$** |
| Intangible assets under development | 1,382,745 | - |
|  |  |  |
| Reconciliation of carrying amounts |  |  |
| Carrying amount at start of year | - | - |
| Additions | 1,382,745 | - |
| Depreciation expense | - | - |
| **Carrying amount at end of year** | **1,382,745** | **-** |

### Initial recognition

Intangible assets represent identifiable non-monetary assets without physical substance. Purchased intangible assets are initially recognised at cost. Subsequently, purchased intangible assets with finite useful lives are carried at cost less accumulated depreciation and impairment. Depreciation and amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The commission’s internally generated produced assets comprise capitalised software development.

The intangible assets with finite useful life are tested for impairment whenever an indication of impairment is identified. The policy in connection with testing the impairment is outlined in the section 5.1.1.

## Note 6. Other assets and liabilities

This section sets out those assets and liabilities that arose from the commission’s controlled operations.

6.1. Receivables

6.2. Payables

6.3. Make Good provision

6.4. Unearned income

### 6.1. Receivables

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
|  | $ | $ |
| **Current:** |  |  |
| **Contractual** |  |  |
| Debtors | 2,710 | 3,740 |
|  | 2,710 | 3,740 |
|  |  |  |
| **Statutory** |  |  |
| Amounts receivable from government departments | 20,142,077 | 18,020,655 |
| GST recoverable | 340,639 | 129,478 |
|  | 20,482,716 | 18,150,133 |
| **Total current receivables** | **20,485,426** | **18,153,873** |
|  |  |  |
| **Non-current:** |  |  |
| **Statutory** |  |  |
| Amounts receivable from government departments | 489,553 | 330,337 |
| Total non-current receivables | 489,553 | 330,337 |
| **Total receivables** | **20,974,979** | **18,484,210** |

Receivables consist of:

* contractual receivables, which include mainly debtors in relation to goods and services; and
* statutory receivables, which include predominantly amounts owing from the Victorian Government and GST input tax credits recoverable.

Receivables that are contractual are classified as financial instruments and categorised as financial assets at amortised cost. Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less any allowance for impairment. Statutory receivables are recognised and measured on the same basis as contractual receivables (except for impairment) but are not classified as financial instruments as they do not arise from a contract.

Collectability of debtors is reviewed on an ongoing basis. A provision for doubtful debts is raised when there is objective evidence that the debts may not be collected. Bad debts are written off when identified.

### 6.2. Payables

|  |  |  |
| --- | --- | --- |
|  | 2020 | 2019 |
|  | **$** | **$** |
| **Current:** |  |  |
| **Contractual** |  |  |
| Creditors and accruals | 3,601,684 | 1,864,051 |
| **Total payables** | **3,601,684** | **1,864,051** |

Payables consist of:

* contractual payables represent liabilities for goods and services provided to the commission that are unpaid at the end of the financial year, and arise when the commission becomes obliged to make future payments in respect of the purchase of those goods and services; and
* statutory payables, such as goods and services tax and fringe benefit tax payables.

Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition. Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost as they do not arise from a contract.

### 6.3. Make Good Provision

|  |  |  |
| --- | --- | --- |
|  | 2020 | 2019 |
|  | **$** | **$** |
| **Current:** |  |  |
| Make Good Provision | 131,061 | 106,470 |
|  | **131,061** | **106,470** |

The make good provision is recognised in accordance with the agreement over the leased premise. The commission is required to remove any leasehold improvements from the lease premise and restore the premise to its original condition at the end of the lease term.

6.4. Unearned income

|  |  |  |
| --- | --- | --- |
|  | 2020 | 2019 |
|  | **$** | **$** |
| **Current:** |  |  |
| Grants received in advance | 842,876 | - |
|  | **842,876** | **-** |

Unearned income relates mainly to grants received in advance by the commission.

## Note 7. Financing our operations

This section provides information on the sources of finance utilised by the commission during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the commission.

This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances).

7.1. Reconciliation of net result to cash flow from operating activities

7.2. Commitments for expenditure

### 7.1. Reconciliation of net result to cash flow from operating activities

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
|  | **$** | **$** |
| Net result  | 149,263 | 1,660,295 |
| **Non-cash movements** |  |  |
| Depreciation | 316,512 | 35,374 |
| (Gain)/Loss on disposal of property, plant and equipment | (12,558) | 2,104 |
| **Movements in assets and liabilities** |  |  |
| (Increase)/decrease in receivables | (2,490,769) | (1,615,217) |
| (Increase)/decrease in prepayments | (160,230) | 77,529 |
| Increase/(decrease) in payables | 1,737,633 | 423,796 |
| Increase/(decrease) in provisions | 1,122,754 | (403,552) |
| Increase/(decrease) in accrued income | 842,876 | - |
| **Net cash flows from operating activities** | **1,505,481** | **180,329** |

### 7.2. Commitments for expenditure

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
|  | **$** | **$** |
| **Capital commitments** |  |  |
| Intangible assets, payable: |  |  |
| Within one year | 878,985 | - |
| Later than one year but not later than five years | - | - |
| Total commitments (inclusive of GST) | 878,985 | - |
| Less GST recoverable | 79,908 | - |
| **Total capital commitments (exclusive of GST)** | **799,077** | **-** |
|  |  |  |
| **Outsourcing commitments** |  |  |
| Information technology services, payable: |  |  |
| Within one year | 454,245 | 480,858 |
| Later than one year but not later than five years | - | - |
| Total commitments (inclusive of GST) | 454,245 | 480,858 |
| Less GST recoverable | 41,295 | 43,714 |
| **Total outsourcing commitments (exclusive of GST)** | **412,950** | **437,144** |
|  |  |  |
| **Property management services, payable:** |  |  |
| Within one year | 1,062,544 | - |
| Later than one year but not later than five years | 729,463 | - |
| Total commitments (inclusive of GST) | 1,792,007 | - |
| Less GST recoverable | 162,910 | - |
| **Total outsourcing commitments (exclusive of GST)** | **1,629,097** | **-** |

|  |  |  |
| --- | --- | --- |
| **Operating lease commitments (a)** |  |  |
| Commitments for minimum lease payments in relation to non-cancellable operating leases, not recognised as liabilities, are payable as follows: |  |  |
| Within one year | - | 921,338 |
| Later than one year but not later than five years | - | 1,608,881 |
| **Total operating lease commitments exclusive of GST** | **-** | **2,530,219** |

*(a) Operating lease commitments for 2019 financial year mainly relate to an accommodation lease contract. This contract does not allow for the commission to purchase the property at the expiry of the tenancy. Following the implementation of the CAM strategy, this arrangement is recorded in DTF’s administered balance sheet as lease liabilities at 30 June 2020 as described in Note 9.2.1.*

Commitments for future expenditure include capital and outsourcing commitments arising from contracts. These commitments are disclosed at their nominal value and inclusive of GST payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

## Note 8. Risks, contingencies and valuation judgements

The commission is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the commission related mainly to fair value determination.

8.1. Financial instruments specific disclosures

8.1.1. Categorisation of financial instruments

8.1.2. Net holding gain/(loss) on financial instruments by category

8.1.3. Financial risk management objectives and policies

8.2. Contingent assets and contingent liabilities

### 8.1. Financial instruments specific disclosures

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the commission’s activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*. For example, statutory receivables arising do not meet the definition of financial instruments as they do not arise under contract.

#### Categories of financial assets

#### Financial assets at amortised cost

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

the assets are held by the commission to collect the contractual cash flows, and

the assets’ contractual terms give rise to cash flows that are solely payments of principal and interests.

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

The commission recognises the following assets in this category:

debtors.

#### Categories of financial liabilities

##### Financial liabilities at amortised cost

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability, using the effective interest rate method.

The commission recognises the following liabilities in this category:

* creditors and accruals.

##### Offsetting financial instruments

Financial instrument assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the commission concerned has a legal right to offset the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### 8.1.1. Categorisation of financial instruments

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | Carrying amount |
|  |  |  | **2020** | **2019** |
| **Financial assets** | **Note** | **Category** | **$** | **$** |
| Receivables\* | 6.1 | Financial assets at amortised cost | 2,710 | 3,740 |
|  |  |  | 2,710 | 3,740 |
|  |  |  |  |  |
| **Financial liabilities** |  |  |  |  |
| Payables | 6.2 | Financial liabilities at amortised cost | 3,601,684 | 1,864,051 |
| Finance lease liability |  | Financial liabilities at amortised cost | 84,889 | 42,995 |
|  |  |  | **3,686,573** | **1,907,046** |

*\* Receivables disclosed here exclude statutory receivables (i.e. amounts receivable from government departments and GST recoverable).*

#### 8.1.2. Net holding gain/(loss) on financial instruments by category

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Financial liabilities** |  |  |  |  |
| Finance lease liability |  | Financial liabilities at amortised cost | **(32,220)** | **(439)** |

The net holding gains or losses disclosed relate to interest expense and are measured at amortised cost.

#### 8.1.3. Financial risk management objectives and policies

##### Financial instruments: Credit risk

Credit risk arises from the financial assets of the commission, which comprise cash, and trade and other receivables. The commission’s exposure to credit risk arises from the potential default of counterparties on their contractual obligations resulting in financial loss to the commission. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with the commission’s financial assets is insignificant because the main debtor is the Victorian Government. For debtors other than government, it is the commission’s policy to only deal with entities with high credit ratings and to obtain sufficient collateral or credit enhancements where appropriate. The commission does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the commission’s maximum exposure to credit risk without taking account of the value of any collateral obtained.

##### Financial instruments: Liquidity risk

Liquidity risk arises when the commission is unable to meet its financial obligations as they fall due. The commission operates under the Victorian Government’s fair payments policy of settling financial obligations within 30 days and in the event of a dispute, making payments within 30 days from the date of resolution.

The commission’s exposure to liquidity risk is deemed insignificant based on prior periods’ data and current assessment of risk. Maximum exposure to liquidity risk is the carrying amounts of financial liabilities. The commission manages its liquidity risk by maintaining an adequate level of uncommitted funds that can be drawn at short notice to meet its short term obligations.

##### Financial Instruments: Market risk

The commission has no exposure to interest rate, foreign currency or other price risks. Interest rates on the commission’s finance lease liabilities are fixed.

#### 8.2. Contingent assets and contingent liabilities

The commission had no contingent assets or contingent liabilities at 30 June 2020 (30 June 2019: Nil).

## Note 9. Other disclosures

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of this financial report.

9.1. Other economic flows included in net result

9.2. Change in accounting policies

9.3. Responsible persons

9.4. Remuneration of executives

9.5. Related parties

9.6. Australian Accounting Standards issued that are not yet effective

9.7. Events after reporting date

9.8. Renumeration of auditors

9.9. Glossary of terms

### 9.1. Other economic flows included in net result

Other economic flows measure the change in volume or value of asset or liability that do not result from transactions. Other gains/(losses) from other economic flows include the gains or losses from:

#### Disposal of non-financial assets

Any gain or loss on the disposal of non-financial assets is recognised at the date of disposal and is determined after deducting from the proceeds the carrying value of the asset at that time.

#### Other gains and losses from other economic flows

Other gains and losses from other economic flows include the transfer of amounts from reserves and/or accumulated surplus to net result due to disposal, derecognition, or reclassification and the revaluation of the present value of leave liabilities due to changes in bond interest rates.

### 9.2. Change in accounting policies

#### 9.2.1. Leases

This note explains the impact of the adoption of AASB 16 on the commission’s financial statements.

The commission has applied AASB 16 with a date of initial application of 1 July 2019. The commission has elected to apply AASB 16 using the modified retrospective approach, as per the transitional provisions of AASB 16 for all leases for which it is a lessee. The cumulative effect of initial application is recognised in retained earnings as at 1 July 2019. Accordingly, the comparative information presented is not restated and is reported under AASB 117 and related interpretations.

Previously, the commission determined at contract inception whether an arrangement is or contains a lease under AASB 117 *Leases* and Interpretation 4 *Determining whether an arrangement contains a Lease*. Under AASB 16, the commission assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 7.1.

On transition to AASB 16, the commission has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied to contracts entered into or changed on or after 1 July 2019.

##### Leases classified as operating leases under AASB 117

As a lessee, the commission previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the commission. Under AASB 16, the commission recognises right-of-use assets and lease liabilities for all leases except where exemption is availed in respect of short-term and low-value leases.

On adoption of AASB 16, the commission recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the commission’s incremental borrowing rate as of 1 July 2019. On transition, right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

The commission has elected to apply the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

* applied a single discount rate to a portfolio of leases with similar characteristics
* adjusted the right-of-use assets by the amount of AASB 137 onerous contracts provision immediately before the date of initial application, as an alternative to an impairment review
* applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term
* excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
* used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and lease liability at 1 July 2019 are determined as the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

##### Impacts on financial statements

On transition to AASB 16, the commission recognised $4.8 million of right-of-use assets and $4.8 million of lease liabilities.

When measuring lease liabilities, the commission discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 2.32%.

|  |  |
| --- | --- |
|  | 1 July 2019 |
|  | $ |
| Total operating lease commitments disclosed at 30 June 2019 | 2,530,219 |
| Discounted using the incremental borrowing rate at 1 July 2019 | 2,431,986 |
| Discounted options to be exercised using the incremental borrowing rate at 1 July 2019 | 2,402,494 |
| Finance lease liabilities as at 30 June 2019 | - |
| Recognition exemption for: |  |
| Short-term leases | - |
| Leases of low-value assets | - |
| **Lease liabilities recognised at 1 July 2019** | **4,834,480** |

##### Centralised Accommodation Management

In April 2019, the Expenditure Review Committee approved the Centralised Accommodation Management (CAM) savings initiative to leverage off DTF Shared Service Provider’s (SSP) property function. CAM has been established to derive efficiencies and cost savings through the provision of a consistent whole of government shared accommodation service.

In October 2019, SSP commenced a phased transition of the CAM model to ensure its operational readiness. As part of the implementation of CAM, SSP managed the whole of government’s accommodation related service payments. Accordingly, the whole of government departments’ and portfolio agencies’ right-of-use lease accommodation assets and associated liabilities were transferred to DTF. These accommodation leases and corresponding liabilities were recognised on 1 November 2019 as contributions by owners - transfer of net assets. No income or expense has been recognised by the commission in respect of the net assets transferred.

The initial transition of the CAM model in October 2019 covers only the commission’s accommodation lease payments. The related leasehold improvements and make good provision on the accommodation will be transferred to SSP in the next phase and remain in the commission’s financial statements as at 30 June 2020.

#### 9.2.2. Revenue from Contracts with Customers

In accordance with FRD 121 *Transitional requirements on the application of AASB 15* *Revenue from Contracts with Customers*, the commission has applied the transitional provisions of AASB 15, retrospectively with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2019. Under this transition method, the commission applied this standard retrospectively only to contracts that are not ‘completed contracts’ at the date of initial application.

Comparative information has not been restated. The adoption of AASB 15 did not have an impact for the 2020 financial year.

#### 9.2.3. Income of Not-for-Profit Entities

In accordance with FRD 122 *Transitional requirements on the application of AASB 1058 Income of Not-for-Profit Entities*, the commission has applied the transitional provision of AASB 1058, retrospectively with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2019. Under this transition method, the commission applied this standard retrospectively only to contracts and transactions that are not completed contracts at the date of initial application.

Comparative information has not been restated. The adoption of AASB 1058 did not have an impact for the 2020 financial year.

#### 9.2.4. Transition impact on financial statements

This note explains the impact of the adoption of the following new accounting standards for the first time, from 1 July 2019:

* AASB 16 *Leases*
* AASB 15 *Revenue from Contracts with Customers; and*
* AASB 105*8 Income of Not-for-Profit Entities*.

Impact on the balance sheet due to the adoption of AASB 16, AASB 15 and AASB 1058 is illustrated with the following reconciliation between the restated carrying amounts at 30 June 2019 and the balances reported under the new accounting standards at 1 July 2019:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Before new accounting standardsOpening 1 July 2019 | Impact of new accounting standards - AASB 16 | After new accounting standardsOpening 1 July 2019 |
| **Balance Sheet** | **Notes** | **$’000** | **$’000** | **$’000** |
| Total financial assets |  | 18,484,210 | - | 18,484,210 |
| Total non-financial assets (a) | 9.2.1 | 727,352 | 4,834,480 | 5,561,832 |
| **Total assets** |  | **19,211,562** | **4,834,480** | **24,046,042** |
| Payables |  | 1,864,051 | - | 1,864,051 |
| Employee related provisions |  | 3,367,217 | - | 3,367,217 |
| Make good provision |  | 106,470 | - | 106,470 |
| Lease liabilities (a) | 9.2.1 | 42,995 | 4,834,480 | 4,877,475 |
| **Total liabilities** |  | **5,380,733** | **4,834,480** | **10,215,213** |
| Contributed capital |  | 873,921 | - | 873,921 |
| Accumulated surplus |  | 12,956,908 | - | 12,956,908 |
| **Total equity** |  | **13,830,829** | **-** | **13,830,829** |

*(a) The commission’s right-of-use accommodation leases and the associated lease liabilities were transferred to DTF’s administered balance sheet under CAM on 1 November 2019, along with the whole of government’s right-of-use accommodation leases and lease liabilities. CAM is further described in Note 9.2.1.*

9.3. Responsible persons

The persons who held the positions of Minister and Accountable Officer in the commission (from 1 July 2019 to 30 June 2020 unless otherwise stated) were:

|  |  |
| --- | --- |
| **Responsible Minister** | The Hon. Robin Scott, MP, Assistant Treasurer (until 15 June 2020)Mr Danny Pearson, MP, Assistant Treasurer (from 22 June 2020) |
| **Accountable Officer** | Dr John Hamill, Chief Executive Officer |

Tim Pallas MP and the Hon. Daniel Andrews MP acted for the Assistant Treasurer in the absences of the Hon. Robin Scott MP.

Total remuneration received or receivable by the Accountable Officer in connection with the management of the commission during the reporting period was in the range: $340,000 - $349,999 ($300,000 – $309,999 in 2018-19).

Amounts relating to ministers are reported in the annual statements of the Department of Parliamentary Services.

### 9.4. Remuneration of executives

The number of executive officers, other than ministers and accountable officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provide a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories:

**Short-term employee benefits** include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

**Post-employment benefits** include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

**Other long-term benefits** include long service leave, other long-service benefit or deferred compensation.

**Termination benefits** include termination of employment payments, such as severance packages.

|  |  |
| --- | --- |
|  | **Total remuneration** |
| **Remuneration of executive officers** | **2020** | **2019** |
|  | **$** | **$** |
| Short-term employee benefits | 817,979 | 871,843 |
| Post-employment benefits  | 78,675 | 94,961 |
| Other long-term benefits  | 60,339 | 47,882 |
| Termination benefits  | 40,132 | 214,735 |
| **Total remuneration** | **997,125** | **1,229,422** |
| **Total number of executives**  | **5** | **7** |
| **Total annualised employee equivalents(a)** | **3.65** | **4.42** |

*(a) Annualised employee equivalent is based on the time fraction worked over the reporting period.*

### 9.5. Related parties

The commission is a wholly owned and controlled entity of the State of Victoria. Related parties of the commission include:

* all key management personnel and their close family members
* all cabinet ministers and their close family members; and
* all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

All related party transactions have been entered into on an arm’s length basis.

#### Significant transactions with government-related entities

Significant transactions entered into by the commission during 2019–20 are disclosed in relevant notes as detailed below:

* the commission received grant funding from DTF which is disclosed in Note 2; and
* the commission on behalf of the Victorian Government collected licence fees from Victorian water businesses $3,705,544 (2018–19 - $2,481,353). This is included as part of the total administered income balance disclosed in Note 4.

#### Key Management Personnel

Key management personnel (KMP) of the commission include the Portfolio Minister, the Hon. Robin Scott MP (until 15 June 2020) and Mr Danny Pearson, MP (from 22 June 2020), and the Commissioners and Chief Executive Officer, which includes:

* Chairperson and Commissioner Kate Symons
* Commissioner Simon Corden
* Commissioner (17 September 2019 to 30 June 2020) Sitesh Bhojani
* Commissioner (10 March 2020 to 30 June 2020) Rebecca Billings; and
* Chief Executive Officer, Dr John Hamill.

The compensation detailed below excludes the salary and benefit the Portfolio Minister receives. The Minister’s remuneration and allowance, set by the *Parliamentary Salaries and Superannuation Act 1968*, are reported within the Department of Parliamentary Services’ Financial Report.

|  |  |  |
| --- | --- | --- |
| **Compensation of KMPs** | **2020** | **2019** |
|  | **$** | **$** |
| Short-term employee benefits | 1,235,431 | 855,774 |
| Post-employment benefits  | 80,622 | 70,888 |
| Other long-term benefits  | 34,539 | 12,381 |
| Termination benefits  | - | - |
| **Total** | **1,350,592** | **939,043** |

### 9.6. Australian Accounting Standards issued that are not yet effective

Certain new and revised accounting standards have been issued but are not effective for the 2019–20 reporting period. These accounting standards have not been applied to the commission’s financial statements. The commission is reviewing its existing policies and assessing the potential implications of these accounting standards which include:

* AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*

This Standard principally amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. It applies to reporting periods beginning on or after 1 January 2020 with earlier application permitted. The commission has not earlier adopted the Standard.

The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material. The commission is in the process of analysing the impacts of this Standard. However, it is not anticipated to have a material impact.

* AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current*

This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. It initially applied to annual reporting periods beginning on or after 1 January 2022 with earlier application permitted however the AASB has recently issued ED 301 *Classification of Liabilities as Current or Non-Current – Deferral of Effective Date* with the intention to defer the application by 1 year to periods beginning on or after 1 January 2023. The commission will not early adopt the Standard. The commission is in the process of analysing the impacts of this Standard. However, it is not anticipated to have a material impact.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods, but are considered to have limited impact on the commission’s reporting.

* AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities (Appendix C)*
* AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
* AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform; and*
* AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia.*

### 9.7. Events after reporting date

There were no subsequent events that had the potential to significantly affect the ongoing operations and financial activities of the commission.

### 9.8. Renumeration of auditors

The fee for the audit of the 2019–20 annual financial statements by the Victorian Auditor-General’s Office amounts to $19,800 (2018–19 - $17,500). No other services are being provided by the Victorian Auditor-General’s Office.

### 9.9. Glossary of terms

**Administered item**

Administered item generally refers to a commission lacking the capacity to benefit from that item in the pursuit of the commission’s objectives and to deny or regulate the access of others to that benefit.

**Annualised employee equivalent**

Annualised employee equivalent is based on paid working hours of 38 ordinary hours per week over 52 weeks for a reporting period.

**Capital asset charge**

A charge levied on the written-down value of controlled non-current physical assets in the commission’s balance sheet which aims to: attribute to the opportunity cost of capital used in service delivery; and provide incentives to the commission to identify and dispose of underutilised or surplus assets in a timely manner.

**Commitments**

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

**Comprehensive result**

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income.

**Controlled item**

Controlled item generally refers to the capacity of a commission to benefit from that item in the pursuit of the commission’s objectives and to deny or regulate the access of others to that benefit.

**Depreciation**

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a transaction and so reduces the net result from transactions.

**Employee benefits expenses**

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments and superannuation contributions.

**Finance lease**

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

**Financial asset**

A financial asset is any asset that is:

* cash;
* an equity instrument of another entity;

a contractual right:

to receive cash or another financial asset from another entity; or

to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

a contract that will or may be settled in the entity’s own equity instruments and is:

a non-derivative for which the entity is or may be obliged to receive a variable number of the entity’s own equity instruments; or

a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments.

**Financial instrument**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets or liabilities that are not contractual (such as statutory receivables or payables that arise as a result of statutory requirements imposed by governments) are not financial instruments.

**Financial liability**

A financial liability is any liability that is:

* a contractual obligation:
* to deliver cash or another financial asset to another entity; or
* to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
* a contract that will or may be settled in the entity’s own equity instruments and is:
* a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or
* a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity’s own equity instruments.

**Financial statements**

A complete set of financial statements comprises:

1. a comprehensive operating statement for the period
2. a balance sheet as at the end of the period
3. a statement of changes in equity for the period
4. a cash flow statement for the period
5. notes, comprising a summary of significant accounting policies and other explanatory information
6. comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*; and
7. a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraph 41 of AASB 101.

**Grants**

Transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be operating or capital in nature.

While grants to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes. For this reason, grants are referred to by the AASB as involuntary transfers and are termed non-reciprocal transfers.

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

**Interest expense**

Costs incurred in connection with the borrowing of funds. Interest expense includes interest on bank overdrafts and short term and long term borrowings, amortisation of discounts or premiums relating to borrowings, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

**Leases**

Leases are rights conveyed in a contract, or part of a contract, the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

**Net result**

Net result is a measure of financial performance of the operations for the period. It is the net result of items of income, gains and expenses (including losses) recognised for the period, excluding those that are classified as ‘other economic flows – other comprehensive income’.

**Net result from transactions**

Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

**Non-financial assets**

Non-financial assets are all assets that are not ‘financial assets’.

**Other economic flows included in net result**

Other economic flows included in net result are changes in the volume or value of an asset or liability that do not result from transactions. They include gains and losses from disposal, revaluation and impairment of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans and fair value changes of financial instruments. In simple terms, they are changes arising from market re-measurements.

**Other economic flows - other comprehensive income**

Other economic flows - other comprehensive income comprises items (including reclassification adjustments) that are not recognised in net result. The components of ‘other economic flows - other comprehensive income’ include changes in physical asset revaluation surplus.

**Payables**

Includes short and long term trade debt and accounts payable, grants and interest payable.

**Receivables**

Includes short and long term trade credit and accounts receivable, grants, taxes and interest receivable.

**Supplies and services**

Supplies and services generally represent cost of goods sold and the day to day running costs, including maintenance costs, incurred in the normal operations of the entity.

**Transactions**

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the government.