Purpose

The purpose of this report is to update the Audit and Risk Committee on any new accounting issues and inform the committee on current accounting treatments including management assumptions, measurements, and recognition.

Discussion

1. Annual Financial Statements

Council's annual financial statements are prepared in compliance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the Local Government Act 2020, and the Local Government (Planning and Reporting) Regulations 2020 (the regulations). The regulations require the financial statements to be prepared in accordance with the Local Government Model Financial Report (LGMFR). Changes to the LGMFR and new and amended accounting standards are considered as part of Council's shell accounts when prepared.

2. Local Government Model Financial Report (LGMFR)

The key changes to the LGMFR for 2023-24 include:

- 'Amortisation – right of use assets' has changed to 'Depreciation – right of use assets'.
- 'Revaluation increment/decrement' has changed to 'revaluation gain/loss'.
- 'Unearned income' has changed to 'Contract and other liabilities'.
- Wording in Note 3.1 rates and charges regarding revaluation refers to the current financial year.
- Other senior staff disclosures threshold increased to $170k (was $160k).
- Reconciliation of cashflows from operating activities to the surplus now includes a sub heading for non-cash items.
- The superannuation contribution rate has been updated to 11 per cent.

3. Streamlining of the Financial Report

The Victorian Auditor General's Office recommends councils streamline their financial reports. This is supported by Local Government Victoria's model financial report which allows councils to remove disclosures relating to immaterial balances. Over the years, financial reports have become longer and more complex and as a result, readers often struggle to find the information they are looking for.

Streamlining is particularly important in the local government sector, due to the broad range of primary users of the financial reports. These include ratepayers, recipients of goods and services, and creditors. Some of these users will not have financial accounting knowledge, so it is essential that financial reports are presented in a simple and comprehensible format, with a specific focus on material information.

Management proposes the following notes be removed:

- **4.4 Amortisation – Intangible assets**: Landfill airspace is the only intangible asset, propose Comprehensive Income Statement be reworded to Amortisation – Landfill airspace.
- **4.5 Depreciation - Right of use assets**: Balance is not material. The 2023 financial year note disclosed $316k.

- **4.6 Allowance for impairment losses**: Balance is not material. The 2023 financial year note disclosed $104k. Note 5.1 (c) Trade and other receivables discloses the split of the allowance amongst debtor types.
- **4.7 Borrowing costs**: Balance is not material. The 2023 financial year note disclosed $326k. The note disclosure is the same as the Comprehensive Income Statement.
- **4.8 Finance Costs - Leases**: Balance is not material. The 2023 financial year note disclosed $16k. The note disclosure is the same as the Comprehensive Income Statement.
- **5.8 Leases**: Balance is not material. The 2023 financial year note disclosed an asset of $662k and liability of $655k.

4. New Accounting Standards

There were no new accounting standards issued by the Australian Accounting Standards Board (AASB) expected to impact Council for the 2023 and 2024 years.

However, AASB undertook a special project in relation to Fair Value for Public and Not For Profit sectors and released clarifications and additional Australian Guidance to AASB13 Fair Value Measurement in December 2022 with a commencement date of 1 July 2024.

Officers have reviewed the clarifications and guidance against Council's processes and made the following determinations:

Topic	Issue	Response
Depreciation calculation	AASB notes each part of the asset should be depreciated separately.	Compliant Council currently componentises complex assets
	Straight line depreciation should be calculated (Carrying Amount – Residual Value)/(Remaining Useful Life).	Compliant Note, Council's asset system calculates straight line depreciation as (Current Replacement Cost)/(Useful Life). This gives the same result. Using the AASB formula in Council's system creates issues when assets are renewed with a partial disposal as the system does not recalculate the Remaining Useful Life.
	Where appropriate, depreciation should be calculated following the pattern of consumption.	Compliant An example is depreciation of waste assets landfill gas flare and cell liners are calculated based on the cubic metres of landfill used.
Replacement Cost	Replacement cost should be calculated using the gross replacement cost, identifying	Compliant

Topic	Issue	Response
	the modern equivalent asset rate.	
Restricted Land	AASB states Council must only take into consideration the restrictions that would pass from a hypothetical seller to a hypothetical buyer, not whether you could ever sell it.	Non-Compliant Council's valuers currently discount land values based on restrictions placed on that land (eg:zoning) and all land under roads is discounted by 95%. Council proposes to wait for guidance from Victorian Auditor General's Office on this topic.
Impairments	AASB 136 Impairment of Assets (b)(i) states "AASB 136 does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets – see excerpt below.	Compliant As at 1 July 2024 Council will no longer impair assets

Excerpt from AASB 136 Impairment of assets:
Aus5.1 Many assets of not-for-profit entities that are not held primarily for their ability to generate net cash inflows are typically specialised assets held for continuing use of their service capacity. Given that these assets are rarely sold, their cost of disposal is typically negligible. The recoverable amount of such assets is expected to be materially the same as fair value, determined under AASB 13 Fair Value Measurement, with the consequence that this standard:

(a) Does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 166 and AASB 138; and
(b) Applies to such assets accounted for under the cost model in AASB 116 and AASB 138.

5. Asset Accounting

Minor changes to MPP001 Asset Accounting Policy (includes Asset Revaluation Methodology) are recommended by officers, a copy of the report is attached. Changes proposed are on pages 13 & 14 updating unit rates to Modern Equivalent Replacement Rate from Greenfields where applicable.

Asset Revaluation Schedule

Revaluations for land, buildings, and infrastructure assets due for revaluation have been completed by officers. Proposed revaluation movements include:

Asset Class	Revaluated Cost $	Current Cost $	Movement $	Movement %
Rec & Leisure	46,329,673	39,206,394	7,123,279	18%

Parks, Open Space & Streetscapes	33,706,144	21,731,499	11,974,644	55%
Footpath & Cycleway	56,251,98	56,104,54	147,436	0%

Asset Class	Revalued Acc Dep $	Current Acc Dep $	Movement $	Movement %	Total Movement $
Rec & Leisure	(14,952,348)	(16,158,688)	1,206,339	(7%)	8,329,619
Parks, Open Space & Streetscapes	(11,482,672)	(9,298,758)	(2,183,914)	23%	9,790,730
Footpath & Cycleway	(17,211,670)	(12,273,025)	(4,938644)	40%	(4,791,209)

Recreation & Leisure assets moved in line with inflation over the previous 3 years. Depreciation on this asset class is being written back due to some asset conditions improving mainly due to favourable weather and maintenance on oval surfaces and hockey pitches, in addition the playground audit indicated playgrounds were in better condition than previously recorded.

Parks, Open Space & Streetscapes assets recorded a large increase in replacement costs. This is mainly due to a 19.7% increase in construction inflation over the previous 3 years as well as transition to Modern Equivalent Replacement Rates for street litter bins, retaining walls and street lighting (see point 7 below). There was also a large increase in the unit rate for footbridges and boardwalks in line with recent capital works projects. In general, conditions on Parks, Open Space & Streetscapes assets remained stable, leading to a relatively smaller increase in accumulated depreciation.

Footpath & Cycleways replacement costs changes were insignificant as this class was indexed in 2022. Accumulated depreciation on footpaths increased largely due to a deterioration in condition of footpaths, particularly many newer footpaths moving from condition 1 to condition 2.

See below for the future revaluation schedule.

Asset Category	2023-24	2024-25	2025-26	2026-27
Bridges & culverts			◩	
Buildings		◩		
Computers & Telecoms				
Drainage & Sewerage		◩		
Fixtures, Fittings & Furniture				
Plant, Machinery & Equipment				
Footpaths & Cycleways	◩			◩
Land		■		■
Land Under Roads			■	
Off Street Car parks			◩	
Parks, Open Spaces & Street Scapes	◩			◩
Recreational Leisure & Community	◩			◩
Roads			◩	
Waste Management Assets			◩	

Revaluation	■
Revaluation & Condition Assessment	◩

6. Asset Indexation

Asset classes not due for revaluation are being assessed to determine if they are being carried at fair value. The asset classes with movement in unit rates that may be above 10% when assessed in June include:

- Buildings

7. Modern Equivalent Replacement Rates versus Replacement Rates

The following components of parks assets are being revalued using modern equivalent replacement rates for the first time:

- Street Litter Bins
- Retaining Walls
- Irrigation
- Non-Standard Street Lights;

After discussion on revaluation of assets with RSD Audit, our auditors, and our asset management team, Council will be revaluing these assets using modern equivalent costs rather than the application of replacement values. Modern equivalent assets are an asset which provides similar function and equivalent utility to the asset being valued, but which is of a current design and constructed using current materials and techniques. Using the modern equivalent replacement cost will more accurately account for the future economic benefits embodied in the assets. This may result in some large movements in valuations but is appropriately justified.

The modern equivalent replacement rate for these parks assets will be based on recent works and the Rawlinsons rates. This will change the rates as follows.

Component	Replacement Cost Rate	Modern Equivalent Replacement Cost Rate	% Movement
Street Litter Bins	$2,500	$4,590	84%
Retaining Walls	$650.00	$1,300	100%
Irrigation	$50,000 per system	$15 per m2	7 –576%
Non-Standard Street Lights	$4,000	$7,400	85%

8. Impairment of Assets

If any of the assets to be transferred to the Great Ocean Road Coast and Parks Authority have not taken place as at 30 June, they will not be recorded as being impaired as per AASB 136 Impairment of Assets paragraph Aus 5.1 (refer to Note 4 for more information in relation to impairment). Impairment of the assets damaged in the October 2022 floods and impaired in the 2022-23 financial year will be reversed.

9. AASB 138 Intangible Assets - Landfill Airspace

The methodology for the accounting treatment of Landfill Airspace was reviewed and accepted by the Victorian Auditor General's Office last year. We will continue to use this methodology this financial year.

The airspace asset is an intangible asset that is measured using cash generating units (airspace volume and Council's adopted tipping fees). That amount is indexed out to its future valued then discounted back to its net present value by applying the long-term government bond rates. The movements in timing and economic value of the airspace asset are accounted for via a revaluation. Revaluations are done annually which ensures that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

10. AASB 137 Provisions, Contingent Liabilities and Contingent Assets - Landfill Rehabilitation Provision

- Management uses the Local Government Victoria model to calculate the landfill rehabilitation provision.
- Raw costs and timing to rehabilitate and provide aftercare at the landfill are reviewed annually and provided by the Waste Coordinator.
- The costs are indexed by the ABS Output of the Construction industries, subdivision and class index numbers and discounted by long term Government Bond rates to arrive at the present value of our landfill rehabilitation.
- The remaining useful life of the landfill is reviewed annually and is determined by the remaining space left in the cells.

11. AASB 137 Provisions, Contingent Liabilities and Contingent Assets – Employee Entitlements

Long Service Leave Provision

- Management use the Department of Treasury and Finance 2008 Long Service Leave model to calculate the long service leave provision.
- Nominal values of long service leave are calculated from the leave balances stored in Authority.
- Nominal values are indexed and discounted by long term government bond rates. The indexation rate is the forthcoming EA increase rate of 3%. Prior to the preparation of the 2022/23 statements management reviewed the effects of increases relating to employee promotions and found the amount to be immaterial. No adjustments to the indexation rate were made.
- Relevant on-costs are applied.
- History of officers becoming entitled to LSL is used to determine the probability current ineligible (due to length of service) employees will reach length of service to be vested.

Annual Leave Provision

- Management use an in-house model to calculate the annual leave provision.
- Nominal values of annual leave are calculated from the leave balances stored in Authority.
- Nominal values are indexed and discounted by long term government bond rates. The indexation rate is the forthcoming EA increase rate of 3%. Prior to the preparation of the 2022/23 statements management reviewed the effects of increases relating to employee promotions and found the amount to be immaterial. No adjustments to the indexation rate were made.

- Relevant on-costs are applied.
- History of annual leave paid on termination is used to determine the value subject to on-costs.

12. AASB 9 Financial Instruments - for the impairment of Trade Receivables and Other Debtors

The simplified approach is used. Debtors are appropriately grouped into infringements, rates and trade debtors. Infringements carry a provision for doubtful debts based on prior withdrawals. A report is extracted from the system that outlines the % value of infringements withdrawn for the past ten years, this % is then applied against the balance sheet value of the infringements as the provision for doubtful debts. Rates are grouped together however no provision is recognised as the debt stays with the property and must be paid on disposal of the property. Trade debtors is the last group, a review of trade debtors is made to determine if a provision is required.

13. Income Transactions

Accounting standards used to recognise income include:

- AASB 15 Revenue from Contracts with Customers
- AASB 16 Leases
- AASB 1058 Income of Not-for-Profit Entities

As part of identifying and registering the contracts and agreements Council enters, a register is maintained which is updated upon the execution of the contracts and agreements. The register distinguishes between revenue/income recognised under AASB15 and AASB1058

14. AASB 15 Revenue from Contracts with Customers

Contracts/agreements are in the scope of AASB 15 if all the following are met:

- Contract is enforceable.
- Promise to transfer goods/services to an external party (performance obligation)
- Performance obligation (promise) is sufficiently specific.

AASB 1058 applies if there is an agreement which:

- Is not enforceable.
- Does not contain a requirement to transfer goods or services to an external party (i.e. Council maintains control of good/service)
- Does not provide sufficiently specificity around the promised goods or services.

- Where funding agreements are project based, the new commitment to deliver a good or services is listed on the monthly Council Report for Project Budget Adjustments and Cash Reserves Transfer Table.
- This standard's principle of recognition of income based on the delivery of performance obligations is applied by Council, with income received in advance of the delivery of these obligations held in the balance sheet until performance obligations are met.
- Each quarter an assessment is done of material unearned income which is incorporated into Council's quarterly financial reports.
- A full earned value assessment is not done on all income until year end.

15. AASB 1058 Income of Not-for-Profit Entities

AASB 1058 Income of Not-for-Profit Entities is the residual accounting standard for a not-for-profit entity's income of which does not fall in the scope of another standard. It establishes principles for not-for-profit entities that apply to transactions where an asset was obtained for significantly less than its fair value that principally enable a not-for-profit entity to further its objectives such as donations, bequests and grants that do not contain sufficiently specific performance obligations. For Council, these transactions include:

- The receipt of volunteer services
- Contributed assets eg. infrastructure assets handed to Council by developers
- Income that does not contain specific performance obligations

Contributions that Council receives are to be recognised at their fair value.
In relation to contributed infrastructure, Council gains control over the asset once it is available for public or Council use. The existence of a warranty or defect period does not allow the deferral of recognition of a contribution.

Council recognises an inflow of resources in the form of volunteer services if: (a) the fair value of those services can be measured reliably; and (b) the services would have been purchased if they had not been donated. Council recognises of the value of volunteer hours in the income statement, both as a revenue and an expenditure item. Council assesses the economic value of volunteering by considering the nature of the volunteer services and the hourly rate is as per the findings within the 'Economic Value of Volunteering in the G21 Region' (G21 Geelong Region Alliance, 2014). Each financial year the hourly rate is then indexed by Surf Coast Shires Enterprise Agreement wage indexation.

Contributed Assets

- Assets which are gifted or contributed to Council by developers or other bodies are to be recorded at their fair value at date of acquisition, based on currently assessed replacement rates.
- Council has a documented process that ensures development engineers, Strategic Asset Management, Open Space Planning, Governance and Finance all work together to ensure all contributed assets are accounted for.
- As at 31 March, Council has received granted assets to the value of $7.8 million. These granted assets include developments from Winchelsea and Torquay (roads, pathways and drainage) and open space assets (wetlands and recreational open space assets).

16. AASB 16 Leases

- Council uses the Authority 'Loans Register' to manage lease liabilities and 'Assets Module' to manage the right-of-use assets.
- AASB 16 requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months. The right-of-use asset represents Council's right to use the underlying leased asset and the lease liability represents Council's obligation to make lease payments.
- The right-of-use assets are amortised via the income statement and the lease liability reduces as lease payments are made.
- An Implied Borrowing Rate is calculated using the number of payment periods, the payment value made each period, the lease term, and an incremental borrowing rate. The incremental borrowing rate is obtained from Treasury Corporation Victoria when a new lease is accounted for. The rate is based on the fixed loan principal and interest 5-year term.

- Council's right-of-use assets mainly comprise leased vehicles and land including the Gherang Gravel Pit site, the Anglesea Landfill site, transfer stations in Deans Marsh and Lorne and the Lorne Visitor Information Site.

17. Great Ocean Road Coast and Parks Authority (GORCAPA) Asset Transfers
Surf Coast Shire and Great Ocean Road Coast and Parks Authority (GORCAPA) are in the process of transferring land from Council to the Authority for no consideration. The following three reserves were transferred in February 2024:

- 1. Anglesea Bowls Club/Tennis Club and the Lions Park/Fairylands Nature Reserve
- 2. Anglesea Riverbank Reserve; and
- 3. Edna Bowman Reserve.

It is currently proposed that Council will transfer all remaining reserves – Coogoorah Park, Lorne Skate Park, Policeman's Paddock, Split Point Lighthouse, Boundary Rd Nature Reserve, Aireys Inlet Pony Club and Bells Beach Surfing Reserve to GORCAPA by 30 June 2024. The final list of assets is still being finalised. On transfer, the assets are removed from the asset register and the written down value of the asset disposed recorded under net gain/loss on disposal of property, infrastructure, plant and equipment in the income statement.

18. Found Assets
Found assets are existing assets that are not recorded in Council's Asset Management System, but they meet the asset definition and recognition criteria.

Assets may be found by

- inspections or audits
- clarification of ownership
- means to be able to reliably measure assets previously unable to be reliably measured or
- changes to interpretation of accounting standards

At this stage of the financial year, Council has found the following assets:

- Footpaths - $83k
- Parks & Open Space - $563k
- Drainage - $78k
- Recreation & Leisure - $354k

Found assets are recorded at their fair value, based on current replacement rates. Note, if a material amount of assets were to be found, officers would classify as a prior period error.

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Recommendation

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That the Audit and Risk Committee:

1. Notes the Accounting Issues and Changes Paper; and
2. Notes the changes to the MPP001 Asset Accounting Policy.

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