

APPENDIX E

VicTrack lease arrangements

FIGURE E1: **Accounting for lease arrangements for operational transport assets**

VicTrack is the legal custodian of the state's transport-related assets. It reported total property, infrastructure, plant and equipment assets of \$41.8 billion at 30 June 2022.

These assets include operational transport assets, such as land, stations, tracks, rolling stock and signalling systems, that are collectively used to operate the state's transport network.

VicTrack leases all operational transport assets to DoT, which in turn provides operators of the train, tram and regional transport networks access to them. The lease between VicTrack and DoT is significantly below market terms and conditions, with only nominal amounts paid to VicTrack.

Adopted accounting treatment

Opinion type	<i>VicTrack</i>	<i>DoT</i>	<i>AFR</i>
	Adverse	Unmodified	Unmodified
Adopted accounting treatment	Incorrectly recorded the arrangement as an operating lease under AASB 16 <i>Leases</i> because it believes it is exposed to substantially all the risks and receives the rewards from ownership of the assets.	Correctly recorded right-of-use assets under AASB 16 <i>Leases</i> . DoT disclosed in its financial report that it has the right to direct the use of the leased assets and obtains substantially all the economic benefits from their use.	A central adjustment was made on consolidation in the AFR to correct the inconsistent accounting treatment between DoT (a GGS entity) and VicTrack (a public non-financial corporation).
Impact	Leased assets and all associated transactions and balances should not have been reported in VicTrack's financial report. Instead, VicTrack should have reported a nominal finance lease receivable.	DoT again availed itself of temporary relief provided by the Australian Accounting Standards to record leases with significantly below-market terms and conditions at cost for 30 June 2022. This meant that for 2021–22, the assets and associated depreciation expenses were not reflected in the GGS ^(a) .	The fair value of the underlying assets and all associated transactions and balances were correctly reinstated at the State of Victoria level.

Note: ^(a)The Australian Accounting Standards Board has added a narrow-scope project to its work program to consider accounting for right-of-use assets under concessionary leases by not-for-profit entities. If the temporary relief from fair valuing these assets is removed, it is expected that these amounts will be fully reflected in DoT's and the GGS's financial reports. No change to this temporary relief occurred in 2021–22. This will adversely affect their net result from transactions because the depreciation expenses from the assets will also need to be recognised.

Source: VAGO.