

APPENDIX E

VicTrack lease arrangements

Figure E1: **Accounting for operational transport assets' lease arrangements**

VicTrack is the legal custodian of the state's transport-related assets. It reported \$46.5 billion of property, infrastructure, plant and equipment assets at 30 June 2023.

These assets include the 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 DTP (previously the Department of Transport), which in turn provides train, tram and regional transport operators access to them. The lease between VicTrack and DTP is significantly below market terms and conditions, with only nominal amounts paid to VicTrack.

The table below shows the adopted accounting treatment for ...

	VicTrack	DTP	AFR
Opinion type	Adverse	Unmodified	Unmodified
Adopted accounting treatment	VicTrack 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	DTP correctly recorded right of use assets under AASB 16 <i>Leases</i> . DTP disclosed in its financial report that it has the right to direct the use of the leased assets and obtains	A central adjustment was made on consolidation in the AFR to correct the inconsistent accounting treatment between DTP (a GGS entity)

	the rewards from owning the assets.	substantially all the economic benefits from their use.	and VicTrack (a PNFC entity).
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.	DTP 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 2023. This meant that for 2022–23, the assets and associated depreciation expenses were not reflected in the GGS*.	The fair value of the underlying assets and all associated transactions and balances were correctly reinstated at the State of Victoria level.

Note: *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 DTP's and the GGS's financial reports. No change to this temporary relief occurred in 2022–23. This will adversely affect their net result from transactions because the depreciation expenses from the assets will also need to be recognised.

Source: VAGO.