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31 August 2007

Mr David Boymal  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
COLLINS STREET WEST VIC 8007

Email: [standard@asb.com.au](mailto:standard@asb.com.au)

Dear Mr Boymal

#### COMMENTS IN RESPONSE TO ED 156

On behalf of Local Government Finance Professionals in Victoria (FinPro) we are pleased to submit our comments to the Australian Accounting Standards Board ("the Board") in response to ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*. Our comments are generally focussed on the impacts relating to AAS 27 and the impact on the local government sector, rather than specifically commenting on the changes to AAS 29 and AAS 31.

FinPro is the peak body servicing local government finance professionals in Victoria. For your information, I have included a brief profile of FinPro as an attachment to this submission.

#### Overall comments on the proposals in ED 156

You have asked that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical on the major issues.

We are supportive of the intention of the ED 156 proposals in not retaining a separate standard for local government entities but applying the principle of common Accounting Standards for both for-profit and not-for-profit entities, albeit with differences in some areas.

We note there has been some history to the review of AAS 27, with ED 125 *Financial Reporting by Local Governments* issued back in October 2003 and then the introduction of International Financial Reporting Standards in Australia. We are pleased that ED 156 has been issued now and are generally supportive of the approach taken in proposing some new topic-based Standards and amendments to existing Standards, while recognising that existing Standards already cover much of the material contained within AAS 27.

#### Specific matters for comment

We have provided our views below on the areas for which you have requested comments where we disagree or have concerns with the proposals. Where comments have not been provided in relation to other aspects of ED 156 we are supportive of the proposals made.



### ***Proposed New Standards - AASB 10XY Land Under Roads – Transitional Requirements***

We have significant concerns regarding the cessation of the transitional provisions for land under roads. Our concerns are centred on three areas, namely, lack of benefits, cost to the sector and technical valuation issues.

We do not believe that recognising land under roads as an asset will improve the relevance and reliability of information for users of local government financial statements. As a non-depreciable and non-saleable item, including a value for land under roads would not add to the decision making ability of either the local government itself or other financial statement users. When local governments make decisions about assets, the decisions typically involve consideration of asset utilisation, asset rationalisation, long-term cost, depreciation, maintenance, the needs of the community, growth potential, construction, upgrade, and so on. Including a value for land under roads would add no value in this regard in relation to the practical decisions that need to be made about local government assets. Instead of improving current reporting outcomes, we are concerned that the proposal may in fact reduce the relevance and reliability of financial statements because of the distorting effect that potential large asset values will have on local government balance sheets and financial ratios.

The requirement to value land under roads will undoubtedly add further cost pressures on local governments that will need to be recovered from the community in the form of higher rates. We believe this would be an ineffective and inefficient use of valuable resources due to the absence of any demonstrable benefits to the local government community.

We are also concerned with the inherent difficulty of valuing land under roads and the high likelihood that different approaches will be adopted by different entities, resulting in inconsistent treatment across the sector. We note the Board's comments accompanying ED 156 in paragraph BC22, discussing the issue of reliably measuring land under roads. The issue of reliable measurement and appropriate valuation techniques is significant and fundamental to accurate financial reporting. Indeed, paragraph 6 of the proposed standard states that 'the purpose of the transitional provisions for land under roads ... is to provide an adequate period within which interested parties can address concerns about the reliable measurement of land under roads'. We do not believe that the concerns the local government sector has in this regard have yet been addressed. We fundamentally believe a better approach would be to continue the existing exemption from applying AASB 116 to land under roads.

We will be seeking to discuss this matter with relevant stakeholders including the Minister for Local Government, the Municipal Association of Victoria (MAV), the Victorian Local Government Association (VLGA) the Victorian Auditor General, the Local Government Professionals (LGPro), the Municipal Group of Valuers and our Interstate affiliates, to endeavour to reach a workable solution to the issues around land under roads. We also invite the Board to be a party to these discussions.

If the transitional provisions are to cease (and we reiterate our view is that these transitional provisions should not cease), we would request that detailed guidance is provided to local governments regarding valuation and measurement techniques to be applied in valuing land under roads. We believe such guidance is critical to ensuring consistency of approach across the sector, on a national basis, and is essential in terms of preparing relevant and reliable financial statements.



### ***Proposed Amendments to Existing Standards - AASB 1004 Contributions***

We believe that the material proposed to be retained from AAS 27 and moved to AASB 1004 requires review and updating. Whilst we acknowledge the reasons for the Board's decision not to review the requirements relating to contributions at this time, we are nonetheless disappointed with the decision not to review these sections in more detail and with the length of time that has passed since significant amendments to these sections were proposed originally in ED 125 back in October 2003. We believe the review of the contributions and revenue recognition requirements should now be given a high priority in order that the current proposals do indeed only stay for the 'short-term' as stated.

In conducting this review, we believe that the principles of revenue recognition need to be considered, together with the unique situation that local governments and other similar organisations find themselves in with regard to grant funding that can distort the financial results due to timing issues relating to revenue recognition and associated expenditure. We believe the relevance and reliability of the financial statements to users is paramount and should be a key driving principle in the review that is conducted. We would be pleased to discuss these issues with you further as part of the Board's review and highlight practical examples of where the revenue recognition requirements can lead to distorted financial statement outcomes.

### ***Requirements/Guidance that would no longer be Addressed in Standards***

We are supportive of the removal of the budget reporting and performance indicators material currently in AAS 27. We note for the Board's information that local governments in Victoria are required under legislation to report on financial performance against the annual budget in separate Standard Statements and to report on key performance indicators in the Performance Statement. Both of these Statements are separately audited by the Victorian Auditor-General and are published as part of local government Annual Reports.

### ***Other proposals***

As stated earlier, apart from the above-mentioned comments, we are generally supportive of the proposals set out in ED 156.

We trust that our comments regarding land under roads will be seriously considered.

Thank you for the opportunity to comment on ED 156 and we would be pleased to discuss our views with you at your convenience. Please contact Bruce Dobson – Chair – FinPro Technical Committee on (03) 8470 8406 if have any questions regarding our submission on which you would like further information.

Yours sincerely

**Linda MacRae**  
President FinPro

**Bruce Dobson**  
Chair – Technical Committee FinPro



## FinPro - Profile

### About Us

**Local Government Finance Professionals (FinPro)** is the peak body servicing Local Government Finance Professionals in Victoria.

An Incorporated Association, FinPro has 290 members representing over 90% of Victorian Local Government Councils, 5 regional library corporations and over twenty other organisations. It is affiliated with CPA Australia and has representation on the Public Sector Committee of CPA Australia.

### Executives of Finpro for 2007

Local Government Finance Professionals (FinPro) is managed to an elected Executive of up to 15 members. The Executive are elected annually at the AGM which is held in late November or early December. The Executive oversees the running of FinPro, setting direction, policy and ensuring the Charter of FinPro is achieved.

### The present Executive of FinPro for 2007 is:

**President:** Linda MacRae - Local Government Solutions

**Vice-President and Chair of the Professional Development Committee:** Michele Tame - Yarra Plenty Regional Library

**Vice-President and Chair of the Technical Committee:** Bruce Dobson - Darebin City Council

#### Members of the Professional Development Committee:

1. Michele Tame - (Chairperson) Yarra Plenty Regional Library
2. Dean Miller - Golden Plains Shire Council
3. Neil Thorpe - Cardinia Shire Council
4. John Traill - Hepburn Shire Council
5. Mick Jaensch - Knox City Council

#### Members of the Technical Committee:

1. Bruce Dobson - (Chairperson) Darebin City Council
2. Paul Franklin - Kingston City Council
3. Danny Wain - Monash City Council
4. Vaughan Williams - Northern Grampians Shire Council
5. Jay Peries - City of Greater Dandenong
6. Marc Giglio - City of Yarra

The administration of FinPro is managed by the organisations Secretary - Gabrielle Gordon from the offices of FinPro which are located in Mornington, Victoria.