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 commission as an individual reporting entity and include all the controlled activities of the commission.

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). In particular, 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	At 30 June 2019 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

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.	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 and onforwarded to the commission in the form of grants.

	2019	2018
	$	**$**
Income from transactions		
Grants from Department of Treasury and Finance	24,972,374	24,056,688
Resources received free of charge	377,165	259,581
Total income from transactions	**25,349,539**	**24,316,269**

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).

The Department of Treasury and Finance (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 benefits in the balance sheet 3.2. Supplies and services

Expenses incurred in delivery of services

		2019	2018
	Notes	**$**	**$**
Employee expenses	3.1.1	14,722,716	15,323,564
Depreciation and amortisation	5.1.1	35,374	187,836
Finance lease interest		439	2,421

Capital asset charge		84,067	2,053
Supplies and services	3.2	8,711,830	8,513,930
Total expenses incurred in delivery of services		**23,554,426**	**24,029,804**

3.1 Employee expenses

3.1.1. Employee expenses in the comprehensive operating statement

Salaries and wages	11,298,880	11,942,828
Superannuation		
- Defined contribution plans	1,149,346	1,154,263
- Defined benefits expense	14,876	14,473
Annual and long service leave expense	1,519,204	1,514,443
On-costs	740,410	697,557
Total employee expenses	**14,722,716**	**15,323,564**

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

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 benefits 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.

	2019	**2018**
Provisions	**$**	**$**
Current:		
Annual leave		
- Unconditional and expected to settle within 12 months	777,768	855,633
- Unconditional and expected to settle after 12 months	184,083	249,765
Long service leave		
- Unconditional and expected to settle within 12 months	279,644	300,165

- Unconditional and expected to settle after 12 months	1,758,885	1,756,203
Termination entitlements	-	303,893
Performance bonus	36,500	-
Total current provisions for employee benefits	**3,036,880**	**3,465,659**
Non-current:		
Long service leave	330,337	305,108
Total non-current provisions for employee benefits	**330,337**	**305,108**
Total provisions for employee benefits	**3,367,217**	**3,770,767**

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

	2019	2018
	$	**$**
Supplies and services		
Rentals and outgoings	1,062,367	1,013,760
Purchases of services	5,303,006	5,779,097
Other	2,346,457	1,721,073
Total supplies and services	**8,711,830**	**8,513,930**

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

Rental payments 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.

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.

	2019	**2018**
	$	**$**
Administered income from transactions		
Licence and other fees	17,387,249	15,759,000
Other income	-	-
Total administered income from transactions	**17,387,249**	**15,759,000**
Administered expenses from transactions		
Payments into the Consolidated Fund	16,535,487	14,685,350
Total administered expenses from transactions	**16,535,487**	**14,685,350**
Administered net result	**851,762**	**1,073,650**
Administered assets		
Financial assets		
Debtors	63,796	369,516
Accrued income	9,122,074	7,964,592
Total administered assets	**9,185,870**	**8,334,108**
Administered net assets	**9,185,870**	**8,334,108**

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

5.1. Property, plant and equipment

	Gross carrying amount		Accumulated Depreciation		Net carrying amount	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**	**$**	**$**
Leasehold improvements	106,470	106,470	(49,686)	(28,393)	56,784	78,077
Office and computer equipment at fair value	23,140	23,140	(23,140)	(22,308)	-	832
Motor vehicle under finance lease	37,865	101,506	(21,879)	(43,141)	15,986	58,365
Construction in Progress – Building	139,716	-			139,716	-
Construction in Progress – Plant & Equipment	37,902	13,059			37,902	13,059
Net carrying amount	**345,093**	**244,175**	**(94,705)**	**(93,842)**	**250,388**	**150,333**

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 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).

Leasehold improvements

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.

5.1.1. Depreciation and amortisation

	2019	2018
Charge for the period	**$**	**$**
Leasehold improvements	21,294	25,120
Office and computer equipment	832	3,328
Motor vehicles under finance lease	13,248	20,251
Intangible assets	-	139,137
Total depreciation and amortisation	**35,374**	**187,836**

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 straightline 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 2019 and 30 June 2018 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

	Leasehold	Office and computer	Motor vehicles under	Construction in Progress –	Construction in Progress –	Total

	improv ements	equipm ent	finance lease	Buildin g	Plant & Equipm ent	
	$	**$**	**$**	**$**	**$**	**$**
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**	**0**	**15,986**	**139,716**	**37,902**	**250,388**
2018						
Carrying amount at start of year	**45,816**	**4,160**	**78,616**		**-**	**128,592**
Additions	57,381		-	-	13,059	70,440
Disposals			-			-
Depreciation expense	(25,120)	(3,328)	(20,251)			(48,699)
Carrying amount at end of year	**78,077**	**832**	**58,365**	**-**	**13,059**	**150,333**

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

6.1. Receivables

	2019	2018
	$	**$**
Current:		
Contractual		
Debtors	3,740	-
	3,740	-
Statutory		
Amounts receivable from government departments	18,020,655	16,462,227
GST recoverable	129,478	101,658
	18,150,133	16,563,885

Total current receivables	**18,153,873**	**16,563,885**
Non-current:		
Statutory		
Amounts receivable from government departments	330,337	305,108
Total non-current receivables	330,337	305,108
Total receivables	**18,484,210**	**16,868,993**

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 loans and receivables. 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

	2019	2018
	$	$
Current:		
Contractual		
Creditors and accruals	1,864,051	1,440,255
Total payables	**1,864,051**	**1,440,255**

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.

6.3. Make Good Provision

Current:		
Make Good Provision	106,470	106,470
	106,470	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.

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

	2019	2018
	$	**$**
Net result	1,660,295	290,004
Non-cash movements		
Depreciation	35,374	187,836
Loss on disposal of property, plant and equipment	2,104	-
Movements in assets and liabilities		
(Increase)/decrease in receivables	(1,615,217)	(943,956)
(Increase)/decrease in prepayments	77,529	(30,214)
Increase/(decrease) in payables	423,796	(189,488)
Increase/(decrease) in provisions	(403,552)	719,383
Net cash flows from operating activities	**180,329**	**33,565**

7.2. Commitments for expenditure

	2019	2018
	$	**$**
Outsourcing commitments		
Information technology services, payable:		
Within one year	480,858	824,328
Later than one year but not later than five years	-	480,858
Total commitments (inclusive of GST)	480,858	1,305,186
Less GST recoverable	43,714	118,653
Total outsourcing commitments (exclusive of GST)	**437,144**	**1,186,533**

Operating lease commitments		
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	876,767
Later than one year but not later than five years	1,608,881	2,338,046
Total operating lease commitments	**2,530,219**	**3,214,813**

Commitments for future expenditure include operating and outsourcing commitments arising from contracts. These commitments are disclosed at their nominal value and inclusive of GST payable except for operating lease commitments. 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.

From July 2018, the commission applies AASB 9 Financial Instruments and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

Categories of financial assets under AASB 9

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 assets previously under AASB 139

Loans and receivables

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables category includes cash and deposits, trade receivables and loans, but not statutory receivables.

Categories of financial liabilities under AASB 9 and previously under AASB 139

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.

Financial instrument liabilities measured at amortised cost include all of the Commission's contractual payables and interest-bearing arrangements other than those designated at fair value through profit or loss.

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	
Financial assets	**Note**	**Category**	**2019 $**	**2018 $**
Receivables*	6.1	Financial assets at amortised cost	3,740	-
			3,740	**-**
Financial liabilities				

Payables	6.2	Financial liabilities at amortised cost	1,864,051	1,440,255
Finance lease liability		Financial liabilities at amortised cost	42,995	58,711
			1,907,046	**1,498,966**

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

Financial liabilities				
Finance lease liability		Financial liabilities at amortised cost	(439)	(2,421)
			(439)	**(2,421)**

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

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 2019 (30 June 2018: 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. Remuneration 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

The commission has elected to apply the limited exemption in AASB 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As a result:

any adjustments to carrying amounts of financial assets or liabilities are recognised at beginning of the current reporting period with difference recognised in opening retained earnings; and

financial assets and provision for impairment have not been reclassified and/or restated in the comparative period.

AASB 9 introduces a major change to hedge accounting. However, it is the commission's policy not to apply hedge accounting.

This note explains the impact of the adoption of AASB 9 *Financial Instruments* on the commission's financial statements.

9.2.1 Change to classification and measurement

On initial application of AASB 9 on 1 July 2018, the commission's management has assessed for all financial assets based on the commission's business models for managing the assets. The following is the change in the classification of the commission's financial assets:

(a) Contractual receivables previously classified as other loans and receivables under AASB 139 are now reclassified as financial assets at amortised cost under AASB 9. There was no difference between the previous carrying amount and the revised carrying amount at 1 July 2018 to be recognised in opening retained earnings.

The accounting for financial liabilities remains largely the same as it was under AASB 139, except for the treatment of gains or losses arising from the commission's own credit risk relating to liabilities designated at fair value through net result. Such movements are presented in other comprehensive income with no subsequent recycle through profit or loss.

9.2.2 Changes to the impairment of financial assets

Under AASB 9, all loans and receivables as well as other debt instruments not carried at fair value through net result are subject to AASB 9's new expected credit loss (ECL) impairment model, which replaces AASB 139's incurred loss approach.

For other loans and receivables, the commission applies the AASB 9 simplified approach to measure expected credit losses based on the change in the ECLs over the life of the asset. Applying the ECL model does not result in recognition of additional loss allowance (previous loss allowance was nil).

9.3. Responsible persons

The persons who held the positions of Minister and Accountable Officer in the commission (from 1 July 2018 to 30 June 2019 unless otherwise stated) were:

Responsible Minister	The Hon. Robin Scott, MP, Assistant Treasurer
Accountable Officer	Dr John Hamill, Chief Executive Officer

Tim Pallas MP acted for the Assistant Treasurer in the absence 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: $300,000 – $309,999 ($300,000 – $309,999 in 2017–18).

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	**2019**	**2018**
	$	**$**
Short-term employee benefits	871,843	1,526,613
Post-employment benefits	94,961	166,166
Other long-term benefits	47,882	47,754
Termination benefits	214,735	77,146
Total remuneration	**1,229,422**	**1,817,679**
Total number of executives	**7**	**8**
Total annualised employee equivalents(a)	**4.42**	**7.7**

Notes:

(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 2018–19 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 $2,481,353 ($4,004,503 in 2017–18) 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, and the commissioners and Chief Executive Officer, which includes:

Acting Chairperson (1 June 2019 to 30 June 2019) and Commissioner (1 July 2018 to 31 May 2019), Kate Symons;
Chairperson (1 July 2018 to 31 May 2019), Dr Ron Ben-David;
Commissioner (9 April 2019 to 30 June 2019), Simon Corden;
Commissioner (1 July 2018 to 29 March 2019), Richard Clarke 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	**2019**	**2018**
	$	**$**
Short-term employee benefits	855,774	905,992
Post-employment benefits	70,888	63,761
Other long-term benefits	12,381	22,044
Termination benefits		
Total	**939,043**	**991,797**

9.6. Australian Accounting Standards issued that are not yet effective

The following AASs become effective for reporting periods commencing after 1 July 2019:

AASB 16 *Leases*

AASB 15 *Revenue from Contracts with Customers*

AASB 1058 *Income of Not-for-profit Entities*

Leases

AASB 16 *Leases* replaces AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on the balance sheet by recording a Right-Of-Use (RoU) asset and a lease liability except for leases that are shorter than 12 months and leases where the underlying asset is of low value (deemed to be below $10,000).

AASB 16 also requires the lessees to separately recognise the interest expense on the lease liability and the depreciation expense on the RoU asset, and remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability will generally be recognised as an adjustment to the RoU asset.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The effective date is for annual reporting periods beginning on or after 1 January 2019. The commission intends to adopt AASB 16 in the 2019–20 financial year when it becomes effective.

The commission will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

The commission has performed a detailed impact assessment of AASB 16 and the potential impact in the initial year of application has been estimated as follows:

increase in RoU ($3,840,609),
increase in related depreciation ($822,666),
increase in lease liability ($4,014,750),
increase in related interest ($148,915) calculated using effective interest method, and
decrease in rental expense ($797,440).
Various practical expedients are available on adoption to account for leases previously classified by a lessee as operating leases under AASB 117. The commission will elect to use the exemptions for all short-term leases (lease term less than 12 months) and low value leases (deemed to be below $10,000)

Grants

AASB 15, AASB 1058 and the related guidance will come into effect for not-for-profit entities for annual reporting periods beginning on or after 1 January 2019. The commission intends to adopt these standards in 2019–20 financial year when it becomes effective.

The commission will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

The commission has performed a detailed impact assessment of AASB 15 and AASB 1058 and there is no potential impact for each major class of revenue and income in the initial year of application.

9.7. Events after reporting date

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

9.8. Remuneration of auditors

The fee for the audit of the 2018–19 annual financial statements by the Victorian Auditor-General's Office amounts to $17,500 ($17,000 in 2017–18). 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.

Financial asset

A financial asset is any asset that is:

a) cash;
b) an equity instrument of another entity;
c) 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

d) 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) 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

b) 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:

a) a comprehensive operating statement for the period;
b) a balance sheet as at the end of the period;
c) a statement of changes in equity for the period;
d) a cash flow statement for the period;
e) notes, comprising a summary of significant accounting policies and other explanatory information;
f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*; and
g) 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.

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.