



RESIDENTIAL TENANCIES BOND AUTHORITY ANNUAL REPORT 2018-19

Authorised and published by the Victorian Government,
1 Treasury Place, Melbourne
15 October 2019

Printed by ACM Printing Pty Ltd, Melbourne
ISSN 2203-8426 (Print) ISSN 2203-8434 (Online)



Unless indicated otherwise, this work is made available under the terms of the Creative Commons Attribution 4.0 International licence. To view a copy of this licence, visit creativecommons.org/licenses/by/4.0. It is a condition of this Creative Commons Attribution 4.0 Licence that you give credit to the original author, who is the State of Victoria.

If you would like to receive this publication in an accessible format, such as large print or audio, or additional copies, please contact:

Residential Tenancies Bond Authority
GPO Box 123
MELBOURNE VIC 3001
AUSTRALIA

Telephone 1300 137 164

Facsimile +61 3 8684 6299

e-mail rtba@justice.vic.gov.au

Internet www.rtba.vic.gov.au



Department of Justice and Community Safety

Residential Tenancies Bond Authority

GPO Box 123
Melbourne VIC 3001
Telephone 1300 137 164
Facsimile 03 8684 6299
Email rtba@justice.vic.gov.au

Hon Marlene Kairouz MP
Minister for Consumer Affairs, Gaming and Liquor Regulation
Level 26, 121 Exhibition Street
MELBOURNE VIC 3000

Dear Minister,

Annual Report 2018-19

In accordance with the *Financial Management Act 1994*, I am pleased to present the Residential Tenancies Bond Authority Annual Report for the year ended 30 June 2019.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'SJ'.

Sam Jenkin
Constituting Member
Residential Tenancies Bond Authority

7 October 2019

Report of Operations

| | |
|---|-----------|
| Introduction | 5 |
| 1. Residential Tenancies Bond Authority Vision..... | 5 |
| 2. Performance measures..... | 5 |
| 3. Operations and service levels objectives..... | 6 |
| 3.1 Key bond processes and achievements for the year are: | 6 |
| 3.2 Transaction types | 7 |
| 3.3 Transfers..... | 7 |
| 3.4 Enquiries | 7 |
| 3.5 SMS notifications | 8 |
| 3.6 Receipts and periodic statements..... | 8 |
| 3.7 RTBA Online | 9 |
| 3.8 RTBA Online operates in two modes:..... | 9 |
| 4. Service enhancements..... | 10 |
| 5. Audit Committee membership and roles | 11 |
| 6. Other activities | 11 |
| 6.1 Compliance | 11 |
| 6.2 Education | 11 |
| 6.3 Website | 12 |
| 6.4 Outsourced services..... | 12 |
| 7. Length of Tenancy | 12 |
| 8. Freedom of Information | 12 |
| 8.1 Making a request..... | 13 |
| 9. Operation of the Residential Tenancies Bond Authority | 13 |
| 10. Compliance information | 14 |
| 10.1 Compliance with the Building Act 1993..... | 14 |
| 10.2 Privacy and Data Protection Act 2014 | 14 |
| 10.3 Application of merit and equity principles..... | 14 |
| 10.4 Compliance with the Protected Disclosure Act 2012..... | 14 |
| 11. Attestation for financial management compliance | 15 |

Introduction

The report of operations complements the information presented in the financial statements by providing explanation and analysis of the Residential Tenancies Bond Authority (the Authority), performance measures, compliance requirements and other activities.

1. Residential Tenancies Bond Authority Vision

The Authority is established by the *Residential Tenancies Act 1997* (the Act) to hold all Victorian residential tenancy bonds, including those applying to long-term caravan and rooming house residents.

2. Performance measures

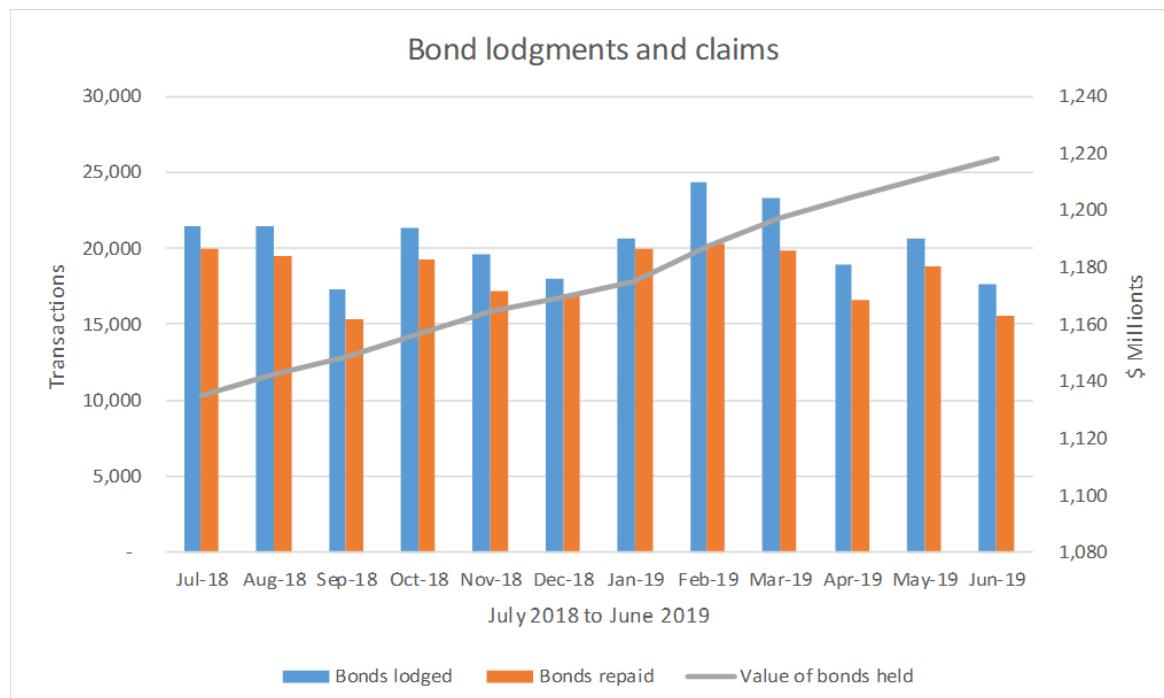
At 30 June 2019, the Authority held 669,688 bonds, valued at \$1,218 million. This represents an increase of 4.0 per cent in the number of bonds since 30 June 2018, and an increase of 8.0 per cent in value.

Bond money received by the Authority is invested in the Residential Bonds Account.

As required by section 436 of the Act, interest earned on the bonds is paid to the Residential Bonds Investment Income Account, where it is applied to the costs of administering the Authority and to making contributions to the Residential Tenancies Fund. Transfers to the Residential Tenancies Fund during 2018-19 totalled \$15.4 million.

The monthly lodgment and repayment of bonds over the past year is shown in the following chart:

Figure 1: Monthly Lodgment and repayment of bonds



3. Operations and service levels objectives

The Authority's operations and service levels objectives are as follows:

- ninety nine per cent of all bond forms received by midday are processed on the same day;
- forms that cannot be processed are returned by the following business day; and
- bond repayments are made by a direct credit issued on the evening of the day of approval, or by a cheque mailed the next business day.

3.1 Key bond processes and achievements for the year are:

Bond lodgments

The Authority registered 244,800 bond lodgments in 2018-19 (an average of 4,708 a week), compared with 241,500 in 2017-18 (an average of 4,644 a week).

Bond repayment claims

The Authority repaid 219,300 bonds (an average of 4,217 a week) compared with 219,600 in 2017-18 (an average of 4,223 a week).

Ninety five per cent of bond claims were processed on agreement between the tenant and the landlord/agent, and 5 per cent were made at the direction of Victorian Civil and Administrative Tribunal (VCAT) or a court. From all of the repayments, 66% of bonds were returned in full to the tenants, 9% in full to the agent/landlord, and 25% of repayments being shared between the tenant and agent/ landlord.

Fifty five per cent of bond repayment claims were received through the RTBA's Electronic Fax Facility, available to approved users. Fax transmissions received by this facility are stored and managed as electronic images. During 2018-19 there was an increased use of electronic transactions to make repayment claims, rising to 31% in the last week of June 2019, compared to 34% of lodgments.

Most repayments (93%) were issued as a direct credit to the payee's bank account on the same day as the repayment was approved. Three per cent of repayments were issued by cheque, and a further 4% were retained by the Authority due to the lack of a valid bank account number or a forwarding address (a retained repayment).

The combination of electronic transactions or receiving repayment claims by fax, and making repayments by direct credit allows most bond repayments to be received by the payee within 24 hours of the tenant and the agent/landlord agreeing to the distribution of the bond.

3.2 Transaction types

Bond transactions can be submitted to the Authority in various ways:

- ‘Electronic Transactions’ are paperless transactions undertaken through the Authority’s transaction website, RTBA Online. A property manager registered with the Authority initiates the transaction by entering the transaction details. The system then sends an email to each tenant, with a link to the transaction. Using this link, a tenant can enter their response to the proposed transaction and also enter other inputs like the bank account details for bond repayments.
- Electronic Transactions operate like online banking, with no paper forms, no signatures to collect, and no need to provide a cheque or money order as bond payments are collected through electronic funds transfer.
- RTBA Online can also be used to generate a paper form (web form) containing all the information required to complete the transaction. Data entry is minimised by re-using all the information already available in the Authority’s Register. Web forms need to have the signatures of all parties, and bond lodgments need to be accompanied by a cheque or money order.
- Blank pre-printed paper forms are being phased out however are available upon request only for those that do not have or cannot get internet access. These pre-printed forms are more likely to be rejected by the Authority as a result of poor legibility.

Most Authority clients use RTBA Online, with around 94% of all transactions being created online.

3.3 Transfers

Under the Act, the Authority must be notified of changes in tenants or landlord/agent. In the year ended 30 June 2019, there were 68,900 bond transfers (an average of 1,325 a week) compared to 66,200 in 2017-18 (an average of 1,273 a week).

52 per cent of bond transfers were received through the RTBA Fax Facility.

3.4 Enquiries

The Authority’s contact centre that provides information and advice on bond matters is operated by Consumer Affairs Victoria (CAV). The most frequent enquiries relate to the status of a bond repayment claim.

In 2018-19, the Authority responded to 74,363 calls and 34,524 emails, compared to 71,378 calls and 32,522 emails in 2017-18.

The contact centre’s phone number (1300 137 164) is a local call service which ensures no Authority client is disadvantaged because of their geographic location or financial circumstances. During 2018-19, the Authority answered 95 % of calls received within the target time of five minutes.

3.5 SMS notifications

The Authority uses SMS notifications to advise of the progress of the processing of transactions.

SMS sent

| SMS type | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---------|---------|---------|---------|---------|
| Alert that an Electronic Transaction has been initiated | 18,445 | 48,974 | 78,047 | 112,045 | 330,737 |
| Advice of rejection of a Bond Repayment Claim | 16,244 | 18,615 | 14,218 | 17,635 | 23,131 |
| Advice of rejection of a Tenant Transfer | 1,473 | 2,554 | 1,698 | 1,624 | 2,236 |
| Advice of rejection of a request to replace a previous repayment | 1,964 | 984 | 810 | 1,091 | 1,754 |
| Advice of the creation of a Retained Repayment (unpaid repayment) | 196 | 555 | 4,660 | 5,194 | 5,270 |
| Total | 38,322 | 71,682 | 99,434 | 137,589 | 363,128 |

The increased use of SMS was driven by more telephone numbers supplied by clients and the increased use of electronic transactions.

3.6 Receipts and periodic statements

When a bond is lodged with the Authority, a receipt is sent to the tenant and to the property manager (landlord or agent). For tenant and private landlords, receipts are emailed whenever the Authority has a valid email address for them. Property managers registered with the Authority are able to instruct the Authority how they want to receive their outputs to meet their operating requirements. Registered property managers may also choose to not receive receipts.

Registered property managers are also provided with access through RTBA Online to a weekly statement of all bond lodgments, repayments and transfers registered to their organisation, and a complete listing of all their bonds.

3.7 RTBA Online

RTBA Online provides online access to the Authority's Register. It provides:

- access at any time to bond information, including the status of a bond, and the lodgment, transfer, and claim history;
- the ability to "self serve", allowing users to see all available information first-hand (this includes the print-out of proof that a bond is lodged with the Authority, as is required for a bond related application to the Victorian Civil and Administrative Tribunal);
- speedier bond transactions, by allowing users to view and confirm the most up-to-date information held by the Authority, avoiding return of bond forms due to avoidable errors;
- the ability of approved users to undertake electronic transactions;
- generation of forms for submitting lodgments, repayment claims, and transfers; and
- the ability to find a retained repayment held by the Authority (when a bond is closed but a repayment cannot be made due to a lack of details, the Authority holds the money as a retained repayment, which can be redeemed by the person to whom it is owed).

3.8 RTBA Online operates in two modes:

Non Registered users: provides for access to the details for a single bond through access based on a combination of the bond number and tenant name.

Registered users: property managers registered with the Authority as managing a portfolio of bonds have access to all of their bonds via a password-protected sign-in, and access to a wider range of functions, including:

- undertaking electronic transactions;
- searching across all bonds registered to the property manager in a number of different ways;
- more bond related information than in the non-registered module;
- images of forms processed by the Authority;
- images of transaction rejection notices issued by the Authority;
- weekly statements, including access to back copies;
- a bond list showing all bonds registered to the property manager; and
- various pro forma Authority documents in regular use by property managers.

Both modes of RTBA Online comply with the Information Privacy Principles of the *Privacy and Data Protection Act 2014* and the confidentiality requirements of the Act.

All users of RTBA Online can also:

- generate bond lodgment forms;
- find outstanding bond repayments (retained repayments);
- obtain their bond number;
- find information about accessing bond forms; and
- access general Authority information, including frequently asked questions.

Use of RTBA Online has continued to increase as demonstrated in the following table.

RTBA Online Activity

| Online activity | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Visitor sessions | 651,119 | 771,051 | 856,293 | 1,084,205 | 1,466,316 |
| Unique visitors | 175,254 | 189,072 | 200,271 | 263,383 | 409,474 |
| Enquiries by registered users | 411,599 | 696,989 | 716,055 | 834,462 | 1,014,586 |
| Enquiries by landlords | 25,052 | 24,621 | 25,276 | 26,535 | 30,147 |
| Enquiries by tenants | 134,929 | 88,796 | 440,765 | 105,873 | 116,321 |
| Lodgment forms created | 163,669 | 188,440 | 227,728 | 251,230 | 276,365 |
| Claim forms created | 202,645 | 208,052 | 226,312 | 263,098 | 333,321 |
| Tenant transfer forms created | 27,281 | 29,535 | 33,447 | 39,187 | 45,271 |
| Agent/landlord transfer forms created | 15,993 | 18,886 | 24,846 | 28,207 | 32,801 |
| Number of registered users | 3,718 | 5,416 | 4,261 | 6,526 | 11,305 |
| Document images viewed | 5,423 | 6,110 | 21,079 | 22,361 | 23,561 |
| Weekly agent statements accessed | 5,215 | 5,263 | 5,650 | 5,621 | 6,455 |
| Agent bond lists accessed | 10,753 | 11,105 | 10,416 | 18,153 | 18,438 |
| Total activity | 1,832,333 | 2,243,336 | 2,792,339 | 2,984,841 | 3,784,361 |

In 2018-19, online access to forms and reports generated by RTBA Online saved the Authority 2.78 million sheets of paper (5,554 reams) in pre-printed forms and circulation of reports.

4. Service enhancements

The Authority remains committed to improving service levels through its continuous improvement program.

Uptake of the online registration of property managers has been very strong, with 99% of all new registrations now being done through RTBA Online.

During 2018-19, the Authority has continued to promote the use of electronic transactions and continued to enhance its transactional website, RTBA Online. These improvements include:

- Relaunching the website to make it more accessible.
- Providing clearer instructions on how to complete transactions.
- Implementing additional security enhancements to make the website more secure from unauthorised access.

Other improvements include:

- Improving the Authority's website (www.rtba.vic.gov.au). Short videos and fact sheets on transaction processing for both property managers and tenants were introduced providing step by step instructions to undertake the various transactions.
- Adopting a number of Digital First initiatives including:
 - Stopping the supply of pre-printed forms for the major RTBA transactions of bond lodgment, repayment claim, transfers and property manager registration forms.
 - Sending receipts and other notices by email instead of post to Registered RTBA Online Property Managers.

- Working with registered RTBA Online Property Managers to migrate them from cheque repayments to repayments by direct credits.

5. Audit Committee membership and roles

The Audit Committee currently consists of the following members:

- John Ireson, Chair (independent member) – 1 July 2018 to 30 June 2019; and
- Anna Higgs, Acting Chief Finance Officer (independent member), Department of Justice and Community Safety – 10 June 2019 to 30 June 2019.

Past members of the Audit Committee were:

- Christopher Breitkreuz (independent member) – 1 July 2018 to 7 June 2019; and
- Elizabeth Lanyon, Director Policy and Corporate Services, Consumer Affairs Victoria – 1 July 2018 to 18 April 2019.

The main responsibilities of the audit committee are to oversee the internal audit function under Direction 3.2.2 of the *Financial Management Act 1994*, including to:

- review and approve the internal audit charter;
- review and approve the strategic internal audit plan prepared under Direction 3.2.2.2(b);
- review and approve the annual audit work program under Direction 3.2.2.2(c);
- review the effectiveness and efficiency of the internal audit function;
- advise the Authority on the appointment and performance of the internal auditors; and
- meet privately with internal auditors if necessary.

6. Other activities

Other activities of the Authority include:

6.1 Compliance

The bond lodging requirements of the Act are enforced by identifying non-complying landlords and agents, issuing advice and warnings and, if necessary, referrals to CAV for investigation and enforcement.

6.2 Education

The Authority educates estate agents, landlords and tenants, to help ensure they understand their rights and responsibilities, and the Authority and its procedures. During 2018-19, education activities included seminar presentations and written advice to property managers on the RTBA Online enhancements.

6.3 Website

The Authority website (www.rtba.vic.gov.au) provides an overview of the Authority, information on bond requirements and processes, access to a knowledge base with answers to the most frequently asked questions, and access to RTBA Online. This website is operated by Consumer Affairs Victoria and provides information about the Authority in the context of all residential tenancy interactions between tenants and property managers.

6.4 Outsourced services

Since it was established in 1998, the Authority has outsourced its registry services, including the receipt, registration, transfer and repayment of bonds. The present provider is Capgemini Australia Pty Ltd.

During the year ended 30 June 2019, Capgemini maintained the RTBA's target performance levels, including processing 99 per cent of transactions on the day of receipt.

The contract with Capgemini runs to 30 June 2021.

7. Length of Tenancy

For bonds repaid in 2018-19, the median duration of the tenancy was 566 days, compared to 554 for 2017-18.

Active bonds on 30 June 2019 had a median duration of tenancy of 634 days, compared to 604 days at 30 June 2018.

Other statistical information on residential tenancies is available in the Rental Report produced by the Director of Housing, available at <https://dhhs.vic.gov.au/publications/rental-report>. This report includes information (other than persons names) supplied to the Director of Housing under section 431 of the Act.

8. Freedom of Information

The Authority maintains documents and electronic records about the receipt, registration, transfer, and repayment of residential bonds. These documents are principally the paper forms completed by interested parties in undertaking a transaction, and any supporting attachments. Electronic transactions do not create any documents. The Authority also maintains an electronic register with a summary of the transactions.

The Authority scrutinises paper forms and supporting documentation to ensure sufficient evidence is provided to support requested transactions. The Authority has no role in deciding disputes between parties to a tenancy. This role is undertaken by the Victorian Civil and Administrative Tribunal or a court.

The Authority's register, transaction forms and supporting documents are confidential, pursuant to section 499 of the Act and therefore not subject to Freedom of Information requests.

The *Freedom of Information Act 1982* allows the public a right of access to other documents held by the RTBA. In the 12 months ended 30 June 2019, the Authority received no Freedom of Information requests.

8.1 Making a request

Access to documents may be obtained through written request to the Freedom of Information Manager, as detailed in section 17 of the *Freedom of Information Act 1982*. In summary, requests should:

- be in writing;
- identify as clearly as possible which document is being requested; and
- be accompanied by the appropriate application fee (the fee may be waived in certain circumstances).

Requests for documents held by the RTBA should be addressed to:

Freedom of Information Officer
Residential Tenancies Bond Authority
17/121 Exhibition Street
Melbourne VIC 3000

Requests can also be lodged online at www.foi.vic.gov.au

Access charges may also apply once documents have been processed and a decision on access is made, for example, photocopying, search and retrieval charges.

Further information about Freedom of Information can be found at www.foi.vic.gov.au

9. Operation of the Residential Tenancies Bond Authority

The financial statements in this report cover the Authority as an individual reporting entity. The Authority is a statutory body of the State of Victoria, established by section 429 of the *Residential Tenancies Act 1997*.

The role of the Authority is to hold all bonds paid on Victorian residential premises in a neutral capacity as stakeholder for landlords and tenants. The bond is held by the Authority for the duration of the tenancy and is repaid either as agreed by the parties to the bond, or as directed by the Victorian Civil and Administrative Tribunal or a court.

Section 429 of the *Residential Tenancies Act 1997* establishes the Authority as a body corporate constituted by the Director of Consumer Affairs Victoria. The Authority has no other members and employs no staff. The Authority is reliant on the staff and resources of the Department of Justice and Community Safety, Consumer Affairs Victoria, and contracted services, with the cost of these inputs being met by the Authority's Residential Bonds Investment Income Account.

The bond monies held by the Authority on behalf of landlords and tenants are invested in the Residential Bonds Account (See Note 4). This account is managed separate from the Department of Justice and Community Safety. The majority of the bond monies are invested with major Australian banks, the Victorian Funds Management Corporation (VFCM) and Treasury Corporation of Victoria (TCV).

The Authority's own funds are held in the Residential Bonds Investment Income Account, with this account being operated as a sub-entity of the Department of Justice and Community Safety except for reporting purposes, and subject to the same policies and procedures as other accounts of the Department.

All investment earnings are paid to the Residential Bonds Investment Income Account where they are applied to meet the costs of the Authority. Any surplus earnings may be paid to the Residential Tenancies Fund.

The Residential Tenancies Fund is administered by Consumer Affairs Victoria independently of the Authority, and recorded in the books of the Department of Justice and Community Safety.

10. Compliance information

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards including Interpretations, issued by the Australian Accounting Standards Board. 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 appropriate, those Australian Accounting Standards' paragraphs applicable to not-for-profit entities have been applied. Accounting policies selected and applied in these financial statements ensure 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.

10.1 Compliance with the Building Act 1993

The Authority does not own or control any government buildings and, as such, is not required to notify its compliance with the building and maintenance provisions of the *Building Act 1993*.

10.2 Privacy and Data Protection Act 2014

The Authority is bound by the *Privacy and Data Protection Act 2014* in relation to the collection, use and disclosure of personal information it obtains. It will only disclose the information it holds when required or allowed by law.

10.3 Application of merit and equity principles

Staff from the Department of Justice and Community Safety and CAV who undertake Authority functions are covered by the Victorian Public Service Code of Conduct and by the Department's performance management system, which encourages and supports staff development and rewards merit.

10.4 Compliance with the Protected Disclosure Act 2012

The *Protected Disclosure Act 2012* (PDA) encourages and assists people in making disclosures of improper conduct by public officers and public bodies. The PDA provides protection to people who make disclosures in accordance with the PDA and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

Staff from CAV and the Department of Justice and Community Safety undertaking the Authority's functions are covered by the Department's policy in relation to making disclosures and the protection offered to them.

11. Attestation for financial management compliance

I, Sam Jenkin, certify that the Residential Tenancies Bond Authority has complied with the applicable Standing Directions 2018 under the *Financial Management Act 1994* and Instructions.



Sam Jenkin
Constituting Member
Residential Tenancies Bond Authority

Financial Statements

Report Structure

The Residential Tenancies Bond Authority (the Authority) has presented its audited general purpose financial statements for the financial year ended 30 June 2019 in the following structure to provide users with information about the Authority's stewardship of resources entrusted to it.

| | |
|--|-----------|
| Declaration in financial statement..... | 17 |
| Independent Auditor's Report | 18 |
| Comprehensive Operating Statement | 20 |
| Balance Sheet | 21 |
| Cash Flow Statement | 22 |
| Statement of Changes in Equity | 23 |
| Notes to the financial statements..... | 24 |
| 1. About this report..... | 24 |
| 2. Funding delivery of our services | 25 |
| 3. Cost of delivering services..... | 27 |
| 4. Key assets available to support output delivery | 29 |
| 5. Other assets and liabilities..... | 31 |
| 6. How we financed our operations | 33 |
| 7. Risk, contingencies and valuation judgements | 36 |
| 8. Other disclosures | 49 |

Declaration in financial statement

The attached financial statements for the Residential Tenancies Bond Authority have been prepared in accordance with Direction 5.2 of the Standing Directions 2018 under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, cash flow statement, statement of changes in equity, and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2019 and financial position of the Authority as at 30 June 2019.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 30 September 2019.



Sam Jenkin
Accountable Officer
Melbourne
30 September 2019



Dees Naidoo
Chief Finance and Accounting Officer
Melbourne
30 September 2019

Independent Auditor's Report



Independent Auditor's Report

Victorian Auditor-General's Office

To the Constituting Member of the Residential Tenancies Bond Authority

| | |
|---|--|
| Opinion | <p>I have audited the financial report of the Residential Tenancies Bond Authority (the authority) which comprises the:</p> <ul style="list-style-type: none">• balance sheet as at 30 June 2019• comprehensive operating statement for the year then ended• statement of changes in equity for the year then ended• cash flow statement for the year then ended• notes to the financial statements, including significant accounting policies• declaration in financial statements. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the authority as at 30 June 2019 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p> |
| Basis for Opinion | <p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the authority in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p> |
| Constituting Member's responsibilities for the financial report | <p>The Constituting Member of the authority is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Constituting Member determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Constituting Member is responsible for assessing the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p> |

| | |
|--|--|
| Auditor's responsibilities for the audit of the financial report | <p>As required by the <i>Audit Act 1994</i>, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.</p> <p>As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:</p> <ul style="list-style-type: none">• identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Constituting Member• conclude on the appropriateness of the Constituting Member's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the authority to cease to continue as a going concern.• evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation. <p>I communicate with the Constituting Member regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.</p> |
|--|--|

MELBOURNE
6 October 2019


Charlotte Jeffries
as delegate for the Auditor-General of Victoria

Comprehensive Operating Statement

For the financial year ended 30 June 2019

| | Notes | 2019 | 2018 |
|---|--------|-------------------|-------------------|
| | | \$ | \$ |
| Income from transactions | | | |
| Interest income | 2.1.1 | 29,519,477 | 27,391,100 |
| Other income | 2.1.2 | 7,154,577 | 2,639,405 |
| Total Income from transactions | | 36,674,054 | 30,030,505 |
| Expenses from transactions | | | |
| Operating expenses | | | |
| Employee expenses | 3 .1.1 | 2,386,537 | 1,699,165 |
| Other operating expenses | 3 .2.1 | 7,367,349 | 6,740,704 |
| Finance costs | | 8,011 | 8,848 |
| Total Operating expenses | | 9,761,897 | 8,448,717 |
| Payment to the Residential Tenancies Fund | 3.3 | 15,400,000 | 18,700,000 |
| Total Expenses from transactions | | 25,161,897 | 27,148,717 |
| Net result from transactions (net operating balance) | | 11,512,157 | 2,881,788 |
| Net gain/ (loss) on financial instruments | 7.4.2 | (984,260) | 2,657,074 |
| Other economic flows included in net result | | (984,260) | 2,657,074 |
| Net Result | | 10,527,897 | 5,538,862 |
| Comprehensive result | | 10,527,897 | 5,538,862 |

The above comprehensive operating statement should be read in conjunction with the notes to the financial statements.

Balance Sheet

As at 30 June 2019

| | Notes | 2019 | 2018 |
|--|-------|----------------------|----------------------|
| | | \$ | \$ |
| Assets | | | |
| Financial assets | | | |
| Cash and deposits | 4.1 | 35,625,690 | 61,422,158 |
| Receivables | 5.1 | 4,622,673 | 4,646,687 |
| Investments and other financial assets | 4.2 | 1,213,236,564 | 1,086,767,521 |
| Total financial assets | | 1,253,484,927 | 1,152,836,366 |
| Total assets | | 1,253,484,927 | 1,152,836,366 |
| Liabilities | | | |
| Payables | 5.2 | 895,741 | 708,540 |
| Bonds held for landlords and tenants | 6.1 | 1,218,235,904 | 1,128,302,441 |
| Total liabilities | | 1,219,131,645 | 1,129,010,981 |
| Net assets | | 34,353,282 | 23,825,385 |
| Equity | | | |
| Accumulated surplus | | 34,353,282 | 23,825,385 |
| Net Worth | | 34,353,282 | 23,825,385 |
| Commitments for expenditure | 6.3 | | |
| Contingent liabilities | 7.3 | | |
| Contingent assets | 7.3 | | |

The balance sheet should be read in conjunction with the notes to the financial statements.

Cash Flow Statement

For the financial year ended 30 June 2019

| | Notes | 2019 | 2018 |
|---|-------|----------------------|---------------------|
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Receipts | | | |
| Interest received | | 29,543,491 | 27,108,559 |
| Other receipts | | 1,274 | 968 |
| Total Receipts | | 29,544,765 | 27,109,527 |
| Payments | | | |
| Payments to suppliers and employees | | (9,574,696) | (8,697,394) |
| Payments to the Residential Tenancies Fund | | (15,400,000) | (18,700,000) |
| Total Payments | | (24,974,696) | (27,397,394) |
| Net cash provided by / (used in) operating activities | 6.2.2 | 4,570,069 | (287,867) |
| Cash flow from investing activities | | | |
| Payment for investments | | (120,300,000) | (82,000,000) |
| Net cash provided by / (used in) investing activities | | (120,300,000) | (82,000,000) |
| Cash flow from financing activities | | | |
| Bonds received | 6.1 | 503,237,217 | 480,138,590 |
| Bonds repaid | 6.1 | (413,303,754) | (393,088,663) |
| Net cash provided by / (used in) financing activities | | 89,933,463 | 87,049,927 |
| Net increase/(decrease) in cash held | | (25,796,468) | 4,762,060 |
| Cash and cash equivalents at the beginning of the financial year | | 61,422,158 | 56,660,098 |
| Cash and cash equivalents at the end of the financial year | 6.2 | 35,625,690 | 61,422,158 |

The cash flow statement should be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

For the financial year ended 30 June 2019

| | Accumulated Surplus | Total |
|--------------------------------|---------------------|-------------------|
| | \$ | \$ |
| Balance at 1 July 2017 | 18,286,523 | 18,286,523 |
| Net Result for the Year | 5,538,862 | 5,538,862 |
| Balance at 30 June 2018 | 23,825,385 | 23,825,385 |
| Net Result for the Year | 10,527,897 | 10,527,897 |
| Balance at 30 June 2019 | 34,353,282 | 34,353,282 |

The statement of changes in equity should be read in conjunction with the notes to the financial statements.

Notes to the financial statements

1. About this report

The Residential Tenancies Bond Authority (the Authority) is a statutory body of the State of Victoria, established by section 429 of the Residential Tenancies Act 1997.

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.

The Authority's principal address is:

Residential Tenancies Bond Authority
Level 17, 121 Exhibition Street
Melbourne VIC 3000

Basis of preparation

These financial statements are in Australian dollars and the historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

The accrual basis of accounting has been applied in preparing 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 financial information being presented. The significant judgements made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Rewards 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. Judgements and assumptions made by management in applying Australian Accounting Standards that have significant effects on the financial statements and estimates are disclosed in the notes under the heading: 'Significant judgement or estimates'.

These financial statements cover the Residential Tenancies Bond Authority as an individual reporting entity.

All amounts in the financial statements have been rounded to the nearest \$1 unless otherwise stated.

Compliance information

These general purpose financial statements have been prepared in accordance with the FMA and applicable Australian Accounting Standards (AASs) which include 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* (AASB 1049).

2. Funding delivery of our services

Introduction

The functions of the Authority, as set out in section 431 of the *Residential Tenancies Act 1997* (the Act), are as follows:

- (a) to collect and disburse bond money paid to the Authority under this Act;
- (b) to establish and administer –
 - (i) a Residential Bonds Account; and
 - (ii) a Residential Bonds Investment Income Account;
- (c) to invest money held in those Accounts in accordance with this Act;
- (ca) to collect the information contained in bond lodgment forms and bond substitution forms given to the Authority and other information kept by the Authority in relation to bonds (including substitute bonds under section 410B) held by the Authority;
- (cb) to disclose the information (other than persons' names) referred to in paragraph (ca), whether it was collected before, on or after the commencement of section 16 of the *Residential Tenancies (Amendment) Act 2003*, to the Director of Housing for the purpose of the use of that information by the Director of Housing in research, compiling statistics and public education;
- (d) to carry out any other function conferred on it by this Act.

Under section 432 of the Act, the Authority has the power to do anything necessary or convenient in connection with carrying out its functions.

The Authority can only repay bonds as agreed by the landlord and tenant, or as directed by the Victorian Civil and Administrative Tribunal or a court.

The Authority's overall objective is to hold all Victorian residential tenancy bonds, including those applying to long-term caravan and rooming house residents.

To enable the Authority to fulfil its objective and provide outputs, it receives income from earnings on its investments.

| Structure | Page |
|------------------------------------|------|
| 2.1 Income from transactions | 25 |

2.1 Income from transactions

| | Notes | 2019 | 2018 |
|---------------------------------------|-------|-------------------|-------------------|
| | | \$ | \$ |
| Interest income | 2.1.1 | 29,517,477 | 27,391,100 |
| Other Income | 2.1.2 | 7,154,577 | 2,639,405 |
| Total income from transactions | | 36,674,054 | 30,030,505 |

Income is recognised to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured at fair value.

2.1.1 Interest Income

Interest income includes interest received on bank term deposits and other investments.

The Authority earns its income from the interest earned on the investment of the Residential Bonds Account and the Residential Bonds Investment Income Account.

All income received by the Authority is required by the *Residential Tenancies Act 1997* to be paid into the Residential Bonds Investment Income Account.

Interest income is recognised using the effective interest method, which allocates the interest over the relevant period.

2.1.2 Other income

Other income includes amounts of unclaimed money less than \$20 and distributions from the VFMC Growth Fund of \$7.1 million which were reinvested in the fund (2018: \$2.6 million).

Distribution income is recognised when the right to receive payment is established.

Distributions represent the income arising from the Authority's investments in financial assets.

3. The cost of delivering services

Introduction

This section provides an account of the expenses incurred by the Authority in delivering services and outputs. In Section 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded.

| Structure | Page |
|---|------|
| 3.1 Expenses incurred in delivery of services..... | 27 |
| 3.2 Other operating expenses | 28 |
| 3.3 Payment to the Residential Tenancies Fund | 28 |

3.1 Expenses incurred in delivery of services

| | Notes | 2019 | 2018 |
|--|-------|------------------|------------------|
| | | \$ | \$ |
| Employee expenses | 3.1.1 | 2,386,537 | 1,699,165 |
| Other operating expenses | 3.2 | 7,367,349 | 6,740,704 |
| Total expenses incurred in delivery of services | | 9,753,886 | 8,439,869 |

Table 3.1.1: Employee Expenses

| | 2019 | 2018 |
|---|------------------|------------------|
| | \$ | \$ |
| Salaries, wages and overtime | 2,062,493 | 1,482,349 |
| Superannuation | 188,446 | 130,632 |
| Other on-costs (fringe benefit tax, payroll tax and workcover levy) | 119,619 | 81,161 |
| Staff training | 15,979 | 5,023 |
| Total employee expenses | 2,386,537 | 1,699,165 |

3.1.1 Employee Expenses

Employee expenses include all costs related to employment including wages and salaries, fringe benefit tax, leave entitlements, termination payments and WorkCover premiums.

The Authority reimburses the Department of Justice and Community Safety for employee benefits expenses incurred on those employees working for the Authority.

Superannuation Contribution

The amount recognised in the comprehensive operating statement is the employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period.

The Authority does not recognise any defined benefit liabilities because it has no legal or constructive obligation to pay future benefits relating to its employees. Instead, the Department of Treasury and Finance (DTF) discloses in its annual financial statements the net defined benefit cost related to the members of these plans as an administered liability (on behalf of the State as the sponsoring employer).

The Authority employs no staff but reimburses the Department of Justice and Community Safety on a time and cost basis for the staff inputs provided to the Authority. Under this arrangement, the Department reports outstanding superannuation information.

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 (LSL) for services rendered to the reporting date and recorded as an expense during the period the services are delivered.

The Authority's functions are undertaken by staff from the Department of Justice and Community Safety and Consumer Affairs Victoria (CAV), with the employee benefits provisions being held by the Department.

3.2 Other Operating Expenses

Table 3.2.1: Other Operating Expenses

| | 2019 | 2018 |
|--|------------------|------------------|
| | \$ | \$ |
| Supplies and services | | |
| Outsourced registry services | 6,179,380 | 5,840,677 |
| Consultants and professional services | 391,295 | 109,373 |
| Other outsourced services | 279,081 | 175,375 |
| Accommodation and property services | 36,807 | 46,389 |
| Printing, stationery and other office expenses | 221,726 | 351,170 |
| Information Technology | 49,060 | 48,495 |
| Other expenses | 210,000 | 169,225 |
| Total Operating Expenses | 7,367,349 | 6,740,704 |

Other operating expenses generally represent the day-to-day running costs incurred in normal operations. It also includes bad debts expense from transactions that are mutually agreed.

Supplies and services are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when the inventories are distributed.

3.3 Payments to the Residential Tenancies Fund

Under section 437 of the *Residential Tenancies Act 1997*, the Authority may transfer from the Residential Bonds Investment Income Account into the Residential Tenancies Fund any amount which the Authority determines. The Residential Tenancies Fund is administered by Consumer Affairs Victoria and recorded in the accounts of the Department of Justice and Community Safety. Payment to the Residential Tenancies Fund is recognised as an expense when the cash is transferred.

4. Key assets available to support output delivery

Introduction

The Authority controls cash and other investments that are utilised in fulfilling its objectives and conducting its activities. They represent the resources that have been entrusted to the Authority to be utilised for delivery of those outputs.

Significant judgement: Classification of investments as 'key assets'

The Authority has made the judgement that investments are key assets utilised to support the Authority's objectives and outputs.

Fair value measurement

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 7.4 in connection with how those fair values were determined.

| Structure | Page |
|---|------|
| 4.1 Cash and deposits..... | 29 |
| 4.2 Investments and other financial assets..... | 29 |

4.1 Cash and deposits

Table 4.1.1 Financial Assets

| Assets | 2019 | 2018 |
|--------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Financial assets | | |
| Cash and deposits | | |
| Cash and deposits | 9,125,690 | 6,422,158 |
| TCV Investments | 26,500,000 | 55,000,000 |
| Total cash and deposits | 35,625,690 | 61,422,158 |

Cash and deposits recognised on the balance sheet comprise cash on hand and cash at bank, deposits at call and those highly liquid investments (with an original maturity of three months or less), which are held for the purpose of meeting short term cash commitments rather than for investment purposes, and are readily convertible to known amounts of cash with an insignificant risk of changes in value.

4.2 Investments and other financial assets

The Authority classified its managed investment at fair value on initial recognition. Subsequently, any changes in fair value are recognised in the net result as other economic flows. Any dividend or interest on a financial asset is recognised in the net result from transactions.

Table 4.2.1 Current investments and other financial assets

| | 2019 | 2018 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Current | | |
| Managed investment scheme (a) | 101,236,564 | 59,767,521 |
| Total Current Investments | 101,236,564 | 59,767,521 |
| Non Current | | |
| Term deposits greater than 12 months | | |
| National Australia Bank investments | 493,500,000 | 463,500,000 |
| Westpac Banking Corporation investments | 548,500,000 | 513,500,000 |
| Commonwealth Bank of Australia investments | 50,000,000 | 50,000,000 |
| Australia and New Zealand Banking Group investments | 20,000,000 | - |
| Total Non Current Investments | 1,112,000,000 | 1,027,000,000 |
| Total investments and other financial assets | 1,213,236,564 | 1,086,767,521 |

Note:

(a) The Authority's funds are invested with the Victorian Funds Management Corporation (VFMC).

5. Other Assets and Liabilities

Introduction

This section sets out those assets and liabilities that arise from the Authority's controlled operations.

| Structure | Page |
|--|------|
| 5.1 Receivables..... | 31 |
| 5.2 Payables | 31 |
| 5.3 Maturity analysis of contractual financial liabilities | 32 |

5.1 Receivables

Table 5.1.1 Receivables

| | 2019 | 2018 |
|--|------------------|------------------|
| | \$ | \$ |
| Current | | |
| Accrued Investment Income – TCV Investment and Term deposits | 4,622,673 | 4,646,687 |
| | 4,622,673 | 4,646,687 |

Receivables consist of accrued investment income. Receivables are recorded at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

5.2 Payables

Table 5.2.1 Payables

| | 2019 | 2018 |
|----------------|----------------|----------------|
| | \$ | \$ |
| Current | | |
| Payables | 895,741 | 708,540 |
| | 895,741 | 708,540 |

Financial liabilities at amortised cost 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. The Authority recognises the following liabilities in this category:

- payables (excluding statutory payables).

5.3 Maturity analysis of contractual financial liabilities

Table 5.3.1 Maturity analysis of contractual financial liabilities

| | Carrying amount | Maturity Dates | |
|--|----------------------|----------------------|-------------------|
| | | Nominal amount | Less than 1 month |
| | \$ | \$ | \$ |
| 2019 | | | |
| Financial Liabilities | | | |
| – Bonds held for landlords and tenants | 1,218,235,904 | 1,218,235,904 | - |
| – Payables (a) | 895,741 | - | 895,741 |
| Total | 1,219,131,645 | 1,218,235,904 | 895,741 |
| 2018 | | | |
| Financial Liabilities | | | |
| – Bonds held for landlords and tenants | 1,128,302,441 | 1,128,302,441 | - |
| – Payables (a) | 708,540 | - | 708,540 |
| Total | 1,129,010,981 | 1,128,302,441 | 708,540 |

Note:

(a) *The total amounts disclosed here exclude statutory amounts (e.g. GST payable).*

6. How we financed our operations

Introduction

This section provides information on the sources of finance utilised by Authority during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the Authority.

This section includes disclosures of balances that are financial instruments (such as bonds held for landlords and tenants and cash balances). Notes 7.1, 7.2 and 7.3 provide additional, specific financial instrument disclosures.

| Structure | Page |
|--|------|
| 6.1 Bonds held for landlords and tenants | 33 |
| 6.2 Cash flow information and balances | 33 |
| 6.3 Commitments for expenditure | 34 |

6.1 Bonds held for landlords and tenants

The *Residential Tenancies Act 1997* requires the bonds received by the Authority to be held in the Residential Bonds Account.

The value and movements in the Residential Bonds Account are as follows:

Table 6.1.1 Bonds held for landlords and tenants

| | 2019 | 2018 |
|--|----------------------|----------------------|
| | \$ | \$ |
| Bonds brought forward | 1,128,302,441 | 1,041,252,514 |
| Bonds received | 503,237,217 | 480,138,590 |
| Bonds repaid | (413,303,754) | (393,088,663) |
| Total Residential Bonds Account | 1,218,235,904 | 1,128,302,441 |

6.2 Cash flow information and balances

Cash and deposits, including cash equivalents, comprise cash on hand and cash at bank, deposits at call and those highly liquid investments with an original maturity of three months or less, which are held for the purpose of meeting short-term cash commitments rather than for investment purposes, and which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

For cash flow statement presentation purposes, cash includes cash on hand and in banks and investments in term deposits of less than 3 months, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the balance sheet as follows:

Table 6.2.1 Cash and cash equivalents

| | 2019 | 2018 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Cash and Cash Equivalents | | |
| Cash at Bank | 9,125,690 | 6,422,158 |
| TCV Investment | 26,500,000 | 55,000,000 |
| Balance as per cash flow statement | 35,625,690 | 61,422,158 |
| Restriction on use of cash | | |
| Bonds held for landlords and tenants | 26,568,293 | 47,088,133 |

Note:

- (a) In addition to the cash and cash equivalents, the Authority has investments of \$1,213 million (2018: \$1,087 million), refer note 4.2

Table 6.2.2 Reconciliation of net result for the period to net cash flows from operating activities

| | 2019 | 2018 |
|--|-------------------|------------------|
| | \$ | \$ |
| Net Result for the period | | |
| | 10,527,897 | 5,538,862 |
| Non-cash movements: | | |
| Net (gain)/loss on financial instruments | 984,260 | (2,657,074) |
| Distributions reinvested | (7,153,303) | (2,638,437) |
| Movements assets and liabilities | | |
| Increase/(Decrease) in payables | 187,201 | (248,677) |
| (Increase)/Decrease in receivables | 24,014 | (282,541) |
| Net cash from/ (used in) operating activities | 4,570,069 | (287,867) |

6.3 Commitments for expenditure

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are recorded at their nominal value and inclusive of GST. 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.

A contract commenced on 10 January 2008 for the development and maintenance of the registry system and provision of services to the Authority relating to the receipt, registration, repayment, and transfer of residential bonds until 30 June 2018. On 8 August 2017, the contract was extended to 30 June 2021. The commitment disclosed represents the unspent portion of the contract.

Table 6.3.1 Total commitments payable

| Nominal amounts | Less than 1 year | 1-5 years | 5+ years | Total |
|---|------------------|-------------------|----------|-------------------|
| 2019 | | | | |
| Commitments for outsourced services | 9,273,000 | 18,031,365 | - | 27,304,365 |
| Total commitments (inclusive of GST) | 9,273,000 | 18,031,365 | - | 27,304,365 |
| Less GST recoverable | 843,000 | 1,639,215 | - | 2,482,215 |
| Total commitments (exclusive of GST) | 8,430,000 | 16,392,150 | - | 24,822,150 |
| 2018 | | | | |
| Commitments for outsourced services | 7,058,810 | 27,042,873 | | 34,101,683 |
| Total commitments (inclusive of GST) | 7,058,810 | 27,042,873 | | 34,101,683 |
| Less GST recoverable from the Australian Tax Office | 641,710 | 2,458,443 | | 3,100,153 |
| Total commitments (exclusive of GST) | 6,417,100 | 24,584,430 | - | 31,001,530 |

7. Risk, Contingencies and Valuation Judgements

Introduction

The Authority 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 instruments 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 Authority related mainly to fair value determinations.

| Structure | Page |
|---|------|
| 7.1 Financial instruments specific disclosures | 36 |
| 7.2 Finance risk management objectives and policies | 40 |
| 7.3 Contingent assets and contingent liabilities | 45 |
| 7.4 Fair value determination | 45 |

7.1 Financial instruments specific disclosures

Introduction

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 Authority's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example taxes, fines and penalties). Such assets and liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*.

From 1 July 2018, the Authority applies AASB 9 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 Authority 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 Authority recognises the following assets in this category:

- cash and deposits;
- receivables (excluding statutory receivables); and
- term deposits.

Financial assets at fair value through net result

Equity instruments that are held for trading are classified as fair value through net result. Other financial assets are required to be measured at fair value through net result unless they are measured at amortised cost.

However, as an exception to those rules above, the Authority may, at initial recognition, irrevocably designate financial assets as measured at fair value through net result if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Authority has designated all of its managed investment schemes as fair value through net result.

Categories of financial assets previously under AASB 139

Loans and receivables and cash are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets and liabilities 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 (and for assets, less any impairment). The Authority recognises the following assets in this category:

- cash and deposits;
- receivables (excluding statutory receivables); and
- term deposits.

Available-for-sale financial instrument assets are those designated as available-for-sale or not classified in any other category of financial instrument asset. Such assets are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value with gains and losses arising from changes in fair value, recognised in 'Other economic flows – other comprehensive income' until the investment is disposed. Movements resulting from impairment and foreign currency changes are recognised in the net result as other economic flows. On disposal, the cumulative gain or loss previously recognised in 'Other economic flows – other comprehensive income' is transferred to other economic flows in the net result. The Authority recognises investments in equities and managed investment schemes in this category.

Held to maturity financial assets: If the Authority has the positive intent and ability to hold nominated investments to maturity, then such financial assets may be classified as held to maturity. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

The Authority makes limited use of this classification because any sale or reclassification of more than an insignificant amount of held to maturity investments not close to their maturity, would result in the whole category being reclassified as available-for-sale. The held to maturity category includes term deposits for which the Authority intends to hold to maturity.

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

Financial assets and liabilities at fair value through net result are categorised as such at trade date, or if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through net result on the basis that the financial assets form part of a group of financial assets that are managed based on their fair values and have their performance evaluated in accordance with documented risk management and investment strategies. Financial instruments at fair value through net result are initially measured at fair value; attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows unless the changes in fair value relate to changes in the Authority's own credit risk. In this case, the portion of the change attributable to changes in the Authority's own credit risk is recognised in other comprehensive income with no subsequent recycling to net result when the financial liability is derecognised.

Financial liabilities at amortised cost 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. The Authority recognises the following liabilities in this category:

- payables (excluding statutory payables).

Derecognition of financial assets: A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Authority retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Authority has transferred its rights to receive cash flows from the asset and either:
 - has transferred substantially all the risks and rewards of the asset; or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Authority has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the Authority's continuing involvement in the asset.

Derecognition of financial liabilities: A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an 'other economic flow' in the comprehensive operating statement.

Table 7.1.1 Financial instruments: Categorisation

| 2019 | Note | Cash and deposits | Financial assets/liabilities designated at fair value through profit/loss (FVTPL) | Financial assets amortised at cost (AC) | Financial liabilities amortised at cost (AC) | Total | | | |
|---|------|-------------------|---|---|--|----------------------|--|--|--|
| | | | | | | | | | |
| Contractual Financial Assets | | | | | | | | | |
| Receivables | | | | | | | | | |
| Accrued investment income | 5.1 | - | - | 4,622,673 | - | 4,622,673 | | | |
| Investments and other contractual financial assets | | | | | | | | | |
| Managed investment scheme | 4.2 | - | 101,236,564 | - | - | 101,236,564 | | | |
| Term deposits | 4.2 | - | - | 1,112,000,000 | - | 1,112,000,000 | | | |
| Total Contractual Financial Assets | | 35,625,690 | 101,236,564 | 1,116,622,673 | | 1,253,484,927 | | | |
| Contractual Financial Liabilities | | | | | | | | | |
| Payables | | | | | | | | | |
| Other payables | 5.2 | - | - | - | 895,741 | 895,741 | | | |
| Bonds held | | | | | | | | | |
| Bonds held for landlords and tenants | 6.1 | - | - | - | 1,218,235,904 | 1,218,235,904 | | | |
| Total Contractual Financial Liabilities | | - | - | - | 1,219,131,645 | 1,219,131,645 | | | |
| 2018 | Note | Cash and deposits | Contractual financial assets – available-for-sale | Contractual financial assets – loans and receivables/held to maturity | Contractual financial liabilities amortised at cost (AC) | Total | | | |
| | | | | | | | | | |
| Contractual Financial Assets | | | | | | | | | |
| Cash and deposits | 4.1 | 61,422,158 | - | - | - | 61,422,158 | | | |
| Receivables | | | | | | | | | |
| Accrued investment income | 5.1 | - | - | 4,646,687 | - | 4,646,687 | | | |
| Investments and other contractual financial assets | | | | | | | | | |
| Managed investment scheme | 4.2 | - | 59,767,521 | - | - | 59,767,521 | | | |
| Term deposits | 4.2 | - | - | 1,027,000,000 | - | 1,027,000,000 | | | |
| Total Contractual Financial Assets | | 61,422,158 | 59,767,521 | 1,031,646,687 | | 1,152,836,366 | | | |

| 2018 | Note | Cash and deposits | Contractual financial assets – available-for-sale | Contractual financial assets – loans and receivables/held to maturity | Contractual financial liabilities amortised at cost (AC) | Total |
|--|------|-------------------|---|---|--|----------------------|
| Payables | | | | | | |
| Other payables | 5.2 | - | - | - | 708,540 | 708,540 |
| Bonds held | | | | | | |
| Bonds held for landlords and tenants | 6.1 | - | - | - | 1,128,302,441 | 1,128,302,441 |
| Total Contractual Financial Liabilities | | - | - | - | 1,129,010,981 | 1,129,010,981 |

7.2 Finance risk management objectives and policies

As a whole, the Authority's financial risk management program seeks to manage these risks and the associated volatility of its financial performance.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument above are disclosed in Note 7.4 to the financial statements.

The main purpose in holding financial instruments is to prudentially manage the Authority's financial risks within the government policy parameters.

The Authority's main financial risks include credit risk, liquidity risk, interest rate risk and equity price risk. The Authority's manages these financial risks in accordance with its financial risk management policy.

The Authority's uses different methods to measure and manage the different risks to which it is exposed. Primary responsibility for the identification and management of financial risks rests with the Accountable Officer of the Authority.

Financial instruments: Credit risk

Credit risk refers to the possibility that a borrower will default on its financial obligations as and when they fall due. The Authority's exposure to credit risk arises from the potential default of a counter party on their contractual obligations resulting in financial loss to the Authority. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with the Authority's contractual financial assets is minimal because it is the Authority's policy to only deal with entities with high credit ratings of a minimum triple-B rating and to obtain sufficient collateral or credit enhancements, where appropriate. The Authority's financial assets are held by TCV (AAA credit rating), Commonwealth Bank of Australia (AA- credit rating), National Australia Bank (AA- credit rating), Westpac Banking Corporation Limited (AA- credit rating), ANZ Bank (AA- credit rating) and VFMC (implied AAA credit rating as they are an authorised centralised agency which has a credit rating equal to the State of Victoria).

In addition, the Authority does not engage in hedging for its contractual financial assets and mainly obtains contractual financial assets that are on fixed interest, except for cash and

deposits, which are mainly cash at bank. As with the policy for debtors, the Authority's policy is to only deal with banks with high credit ratings.

Provision of impairment for contractual financial assets is recognised when there is objective evidence that the Authority will not be able to collect a receivable. Objective evidence includes financial difficulties of the debtor, default payments, debts that are more than 60 days overdue, and changes in debtor credit ratings.

Contract financial assets are written off against the carrying amount when there is no reasonable expectation of recovery. Bad debt written off by mutual consent is classified as a transaction expense. Bad debt written off following a unilateral decision is recognised as other economic flows in the net result.

Except as otherwise detailed in the following table, the carrying amount of contractual financial assets recorded in the financial statements, net of any allowances for losses, represents the Authority's maximum exposure to credit risk without taking account of the value of any collateral obtained.

There has been no material change to the Authority's credit risk profile in 2018-19.

Table 7.2.1 Credit quality of financial assets

| | Notes | Financial institutions (AA- credit rating) | Government agencies (AAA credit rating) | Total |
|--|-------|--|---|----------------------|
| 2019 | | | | |
| Financial assets | | | | |
| Cash and deposits | 4.1 | 9,125,690 | 26,500,000 | 35,625,690 |
| Receivables (a) | 5.1 | 4,490,964 | 131,710 | 4,622,674 |
| Investments and other financial assets | 4.2 | 1,112,000,000 | 101,236,564 | 1,213,236,564 |
| Total financial assets | | 1,125,616,654 | 127,868,274 | 1,253,484,928 |
| 2018 | | | | |
| Financial assets | | | | |
| Cash and deposits | 4.1 | 6,422,158 | 55,000,000 | 61,422,158 |
| Receivables (a) | 5.1 | 4,435,805 | 210,882 | 4,646,687 |
| Investments and other financial assets | 4.2 | 1,027,000,000 | 59,767,521 | 1,086,767,521 |
| Total financial assets | | 1,037,857,963 | 114,978,403 | 1,152,836,366 |

Note:

(a) The total amounts disclosed here exclude statutory amounts (e.g. GST input tax credit recoverable).

Impairment of financial assets under AASB 9 – applicable from 1 July 2018

From 1 July 2018, the Authority has been recording the allowance for expected credit loss for the relevant financial instruments, replacing AASB 139's incurred loss approach with AASB 9's Expected Credit Loss approach. Subject to AASB 9 impairment assessment include the Authority's contractual receivables, statutory receivables and its investment in debt instruments.

Equity instruments are not subject to impairment under AASB 9. Other financial assets mandatorily measured or designated at fair value through net result are not subject to

impairment assessment under AASB 9. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

Financial instruments: Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due. The Authority operates under the Government 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 Authority is exposed to liquidity risk mainly through the financial liabilities as disclosed in the face of the balance sheet. The Authority manages its liquidity risk by holding cash, deposits and investments that are readily liquidated upon request.

The Authority's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. Cash for unexpected events is generally sourced from liquidation of available-for-sale financial investments.

Financial instruments: Market risk

The Authority's exposure to market risk mainly arises from interest rate risk. The Authority does not engage in financial trading. Through its VFMC investment the Authority has some exposure to foreign currency and other price risks.

During 2018-19 the Authority continued to invest a proportion of the Residential Bonds Account (bonds held) in the VFMC Growth Fund. The Authority managed market risk on this investment by limiting this investment to 8% of this Account.

Objectives, policies and processes used to manage each of these risks are disclosed below.

The tables that follow show the impact on the Authority's net result and equity for each category of financial instrument held by the Authority at the end of the reporting period, if the above movements were to occur.

Interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Authority does not hold any interest bearing financial instruments that are measured at fair value, other than a small exposure to fixed income securities through the VFMC investment, therefore the Authority has a minimal exposure to fair value interest rate risk.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority has minimal exposure to cash flow interest rate risks through cash and deposits and term deposits that are at floating rate.

The Authority manages this risk by mainly undertaking fixed rate or non-interest bearing financial instruments with relatively even maturity profiles, with only insignificant amounts of financial instruments at floating rate. Management has concluded for cash at bank as a financial asset that can be left at floating rate without necessarily exposing the Authority to significant bad risk, management monitors movement in interest rates on a daily basis.

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates and the Authority's sensitivity to interest rate risk are set out in the table that follows:

Table 7.2.2 Interest rate exposure of financial instruments

| | Notes | Weighted average effective interest rate % | Carrying amount \$ | Interest Rate Exposure | | | | | |
|--|-------|--|----------------------|---------------------------|------------------------|-------------------------|--|--|--|
| | | | | Variable Interest Rate \$ | Fixed Interest Rate \$ | Non-interest bearing \$ | | | |
| 2019 | | | | | | | | | |
| Financial assets | | | | | | | | | |
| Cash at bank | | 1.56% | 9,125,690 | 9,125,690 | - | - | | | |
| TCV Investment | | 2.01% | 26,500,000 | 26,500,000 | - | - | | | |
| Total cash and deposits | 4.1 | | 35,625,690 | 35,625,690 | - | - | | | |
| Receivables | 5.1 | | 4,622,673 | - | - | 4,622,673 | | | |
| Managed investment scheme | 4.2 | | 101,236,564 | - | - | 101,236,564 | | | |
| Term deposits | 4.2 | 2.67% | 1,112,000,000 | 171,000,000 | 941,000,000 | - | | | |
| Total financial assets | | | 1,253,484,927 | 206,625,690 | 941,000,000 | 105,859,237 | | | |
| Financial Liabilities | | | | | | | | | |
| - Bonds held for landlords and tenants | 6.1 | | 1,218,235,904 | - | - | 1,218,235,904 | | | |
| - Payables (a) | 5.2 | | 895,741 | - | - | 895,741 | | | |
| Total Financial Liabilities | | | 1,219,131,645 | - | - | 1,219,131,645 | | | |
| 2018 | | | | | | | | | |
| Financial assets | | | | | | | | | |
| Cash at bank | | 1.50% | 6,422,158 | 6,422,158 | - | - | | | |
| TCV Investment | | 1.79% | 55,000,000 | 55,000,000 | - | - | | | |
| Total cash and deposits | 4.1 | | 61,422,158 | 61,422,158 | - | - | | | |
| Receivables | 5.1 | | 4,646,687 | - | - | 4,646,687 | | | |
| Managed investment scheme | 4.2 | | 59,767,521 | - | - | 59,767,521 | | | |
| Term deposits | 4.2 | 2.66% | 1,027,000,000 | 171,000,000 | 856,000,000 | - | | | |
| Total financial assets | | | 1,152,836,366 | 232,422,158 | 856,000,000 | 64,414,208 | | | |
| Financial Liabilities | | | | | | | | | |
| - Bonds held for landlords and tenants | 6.1 | | 1,128,302,441 | - | - | 1,128,302,441 | | | |
| - Payables (a) | 5.2 | | 708,540 | - | - | 708,540 | | | |
| Total Financial Liabilities | | | 1,129,010,981 | - | - | 1,129,010,981 | | | |

Note:

(a) The total amounts disclosed here exclude statutory amounts (e.g. GST payable).

Table 7.2.3 Interest rate risk sensitivity

| 2019 | Carrying amount | -100 basis points | | +100 basis points | |
|-------------------------------------|-----------------|--------------------|--|-------------------|--|
| | | Net result | Available-for-sale revaluation surplus | Net result | Available-for-sale revaluation surplus |
| | | | | | |
| Contractual financial assets | | | | | |
| Cash at bank (a) | 9,125,690 | (91,257) | - | 91,257 | - |
| TCV investment (a) | 26,500,000 | (265,000) | - | 265,000 | - |
| Term deposits (a) | 171,000,000 | (1,710,000) | - | 1,710,000 | - |
| Total impact | | (2,066,257) | - | 2,066,257 | - |
| 2018 | | | | | |
| Contractual financial assets | | | | | |
| Cash at bank (a) | 6,422,158 | (64,222) | - | 64,222 | - |
| TCV investment (a) | 55,000,000 | (550,000) | - | 550,000 | - |
| Term deposits (a) | 171,000,000 | (1,710,000) | - | 1,710,000 | - |
| Total impact | | (2,324,222) | - | 2,324,222 | - |

Note:

- (a) The Cash at bank, the TCV investment and the variable component of the term deposits are exposed to floating rates movements.

Foreign currency risk

The Authority is exposed to foreign currency risk mainly through its investment in the VFMC Growth Fund. During 2018-19 the Authority continued to invest a proportion of the Residential Bonds Account (bonds held) in the VFMC Growth Fund. The Authority managed foreign currency risk on this investment by limiting this investment to 8% of this Account.

Equity price risk

The Authority is exposed to equity price risk through its investments in a managed investment scheme. Such investments are allocated and traded to match the investment objectives appropriate for the Authority's liabilities. The Authority appointed the VFMC to manage its investment portfolio in accordance with the Trust Money Investment Policy approved by the Treasurer and the Governor-in-Council. The VFMC on behalf of the Authority closely monitors performance and manages the equity price risk through diversification of its investment portfolio. The Authority's sensitivity to other price risk is set out below.

Table 7.2.4 Other price risk sensitivity

| | Carrying amount | -15% | | +15% | |
|---------------------------|--------------------|------------------------|----------------------------|------------------------|------------------------------|
| | | Net revaluation result | Available-for-sale surplus | Net revaluation result | Available-for-sale n surplus |
| | | | - | | - |
| 2019 | | | | | |
| Managed investment scheme | 101,236,564 | (15,185,485) | - | 15,185,485 | - |
| Total impact | 101,236,564 | (15,185,485) | - | 15,185,485 | - |
| 2018 | | | | | |
| Managed investment scheme | 59,767,521 | (8,965,128) | - | 8,965,128 | - |
| Total impact | 59,767,521 | (8,965,128) | - | 8,965,128 | - |

7.3 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet but are disclosed and, if quantifiable, are measured at nominal value.

Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Contingent assets

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

These are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable.

There were no contingent assets at balance date (2018: Nil).

Contingent liabilities

Contingent liabilities are:

- possible obligations that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- present obligations that arise from past events but are not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or
 - the amount of the obligations cannot be measured with sufficient reliability.

Contingent liabilities are also classified as either quantifiable or non-quantifiable.

There were no contingent liabilities at balance date (2018: Nil).

7.4 Fair value determination

Significant judgement: Fair value measurements of assets and liabilities

Fair value determination requires judgement and the use of assumptions. This section discloses the most significant assumptions used in determining fair values. Changes to assumptions could have a material impact on the results and financial position of the Authority.

This section sets out information on how the Authority determined fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following asset and liabilities are carried at fair value:

- financial assets and liabilities at fair value through operating result; and
- available-for-sale financial assets.

In addition, the fair values of other assets and liabilities that are carried at amortised cost, also need to be determined for disclosure purposes.

The Authority determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

7.4.1 Fair Value determination of financial assets and liabilities

The fair values and net fair values of financial assets and liabilities are determined as follows:

- Level 1 – the fair value of financial instruments with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;
- Level 2 – the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3 – the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

The Authority currently holds a range of financial instruments that are recorded in the financial statements where the carrying amounts approximate to fair value, due to their short-term nature or with the expectation that they will be paid in full by the end of the 2018-19 reporting period.

These financial instruments include:

| Financial assets | Financial liabilities |
|---|---|
| Cash and deposits | Bonds held for landlords and tenants |
| Receivables: | Payables: |
| <ul style="list-style-type: none">• Accrued investment income• Other receivables | <ul style="list-style-type: none">• For supplies and services |
| Investments and other contractual financial assets: | |
| <ul style="list-style-type: none">• Managed investment scheme• Term deposits | |

Where the fair value of the financial instruments is different from the carrying amounts, the following information has been included to disclose the difference.

Table 7.4.1 Fair value of financial instruments measured at amortised cost

| | Carrying amount 2019 | Fair value 2019 | Carrying amount 2018 | Fair value 2018 |
|--------------------------------------|-------------------------|--------------------|-------------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Cash at bank | 9,125,690 | 9,125,690 | 6,422,158 | 6,422,158 |
| TCV investment | 26,500,000 | 26,500,000 | 55,000,000 | 55,000,000 |
| Receivables (a) | | | | |
| – Accrued investment income | 4,622,673 | 4,622,673 | 4,646,687 | 4,646,687 |
| Managed Investment scheme | 101,236,564 | 101,236,564 | 59,767,521 | 59,767,521 |
| Term deposits | 1,112,000,000 | 1,112,000,000 | 1,027,000,000 | 1,027,000,000 |
| Financial liabilities | | | | |
| Bonds held for landlords and tenants | 1,218,235,904 | 1,218,235,904 | 1,128,302,441 | 1,128,302,441 |
| Payables | 895,741 | 895,741 | 708,540 | 708,540 |

Note:

(a) *Fair value of financial instruments measured at amortised cost.*

There have been no transfers between levels during the period.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate fair value.

Managed investment schemes: The Authority invests in managed funds, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock-up periods, redemption gates and side pockets. The Authority considers the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investment, to ensure they are reasonable and appropriate and therefore the net asset value (NAV) of these funds may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions and redemptions, future commitments and other specific factors of the fund. In measuring fair value, consideration is also paid to any transactions in the shares of the fund. The Authority classifies these funds as Level 2.

Table 7.4.2 Reconciliation of Level 2 fair value movements

| | Financial assets at FVOCI | | Total | |
|---|---------------------------|------------|-------------|------------|
| | Managed investment scheme | | 2019 | 2018 |
| | 2019 | 2018 | 2019 | 2018 |
| \$ | \$ | \$ | \$ | \$ |
| Opening Balance | 59,767,521 | 54,472,010 | 59,767,521 | 54,472,010 |
| Total gains or losses recognised in: | | | | |
| - Net result | (984,260) | 2,657,074 | (984,260) | 2,657,074 |
| - Distributions | 7,153,303 | 2,638,437 | 7,153,303 | 2,638,437 |
| Purchases | 35,300,000 | - | 35,300,000 | - |
| Settlements | - | - | - | - |
| Closing Balance | 101,236,564 | 59,767,521 | 101,236,564 | 59,767,521 |
| Total gains or losses for the period included in profit or loss for assets held at the end of the period | (984,260) | 2,657,074 | (984,260) | 2,657,074 |

8. Other Disclosures

Introduction

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of this financial report.

| Structure | Page |
|--|------|
| 8.1 Responsible persons..... | 49 |
| 8.2 Related parties | 50 |
| 8.3 Remuneration of auditors | 51 |
| 8.4 Australian Accounting Standards issued that are not yet effective..... | 51 |
| 8.5 Glossary of terms | 52 |
| 8.6 Style conventions | 54 |
| 8.7 Disclosure index..... | 55 |

8.1 Responsible persons

In accordance with the Ministerial Directions issued by the Assistant Treasurer under the *Financial Management Act 1994*, the following disclosures are made regarding responsible persons for the reporting period.

Responsible Persons

The persons who held the positions of Ministers and Responsible Persons of the Authority are as follows

| | | |
|--|------------------------------|-----------------------------------|
| Minister for Consumer Affairs, Gaming & Liquor Regulation | The Hon. Marlene Kairouz, MP | 1 July 2018 to 30 June 2019 |
| Acting Minister for Consumer Affairs, Gaming & Liquor Regulation | The Hon. Lisa Neville, MP | 1 January 2019 to 20 January 2019 |

The Authority is constituted by the Director of Consumer Affairs Victoria under section 430 of the *Residential Tenancies Act 1997*. The persons holding this office in a substantive capacity during the year ended 30 June 2019 were:

| | | |
|--|---------------------------------|---|
| Director of Consumer Affairs Victoria | Mr Simon Cohen Mr Sam Jenkin | 1 July 2018 to 1 February 2019 5 June 2019 – 30 June 2019 |
| Acting Director of Consumer Affairs Victoria | Mr Sam Jenkin | 7 November 2018 to 11 November 2018 1 February 2019 to 5 June 2019 |

Remuneration of Responsible persons

Remuneration received or receivable by responsible persons during the period:

| Salary Range | 2019 No. | 2018 No. |
|--------------|-------------|-------------|
| Nil | 1 | 1 |

The Minister's remuneration and allowances is set by the *Parliamentary Services and Superannuation Act 1968* and is reported within the Department of Parliamentary Services' Financial Report.

The Director of Consumer Affairs Victoria receives no additional remuneration for constituting the Residential Tenancies Bond Authority, with remuneration for the position of Director being disclosed in the Financial Statements of the Department of Justice and Community Safety.

8.2 Related parties

The Authority is a wholly owned entity of the State of Victoria.

No agencies have been consolidated into the Authority's financial statements.

Related parties of the Authority include:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over);
- 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.

Significant transactions with government-related entities

The Authority received no funding from and made no payments to the Consolidated Fund.

The Authority made a discretionary transfer of \$15.4 million to the Residential Tenancies Fund managed by the Department of Justice and Community Safety.

Key management personnel of the Authority includes the Portfolio Minister, the Hon.

Marlene Kairouz, MP and the Director of Consumer Affairs Victoria who is the sole member of the Authority.

Transactions and balances with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public e.g. stamp duty and other government fees and charges. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the *Public Administration Act 2004* and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements.

Outside of normal citizen type transactions with the Authority, there were no related party transactions that involved key management personnel, their close family members and their personal business interests other than those disclosed in the Annual Report of the Department of Justice and Community Safety. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

8.3 Remuneration of auditors

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$ | \$ |
| Victorian Auditor-General's Office Audit of the financial statements | 15,200 | 14,800 |
| Total remuneration of auditors | 15,200 | 14,800 |

The external audit fee is included in Note 3.2 Other Expenses.

Note: (a) The Victorian Auditor-General's Office is prohibited from providing non-audit services.

8.4 Australian Accounting Standards issued that are not yet effective

Certain new Australian Accounting Standards (AAS) have been published which are not mandatory for the 30 June 2019 reporting period. The Department of Treasury and Finance assesses the impact of all these new standards and advises the Authority of their applicability and early adoption where applicable. As at 30 June 2019, the following AAS has been issued but are not yet effective, which may result in potential impacts on public sector reporting for future reporting periods.

| Standard / Interpretation | Summary | Applicable for annual reporting periods beginning on | Impact on the Authority's financial statements |
|---|--|--|---|
| AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of Material</i> | This Standard principally amends AASB 101 <i>Presentation of Financial Statements</i> and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material. | 1 January 2020 | The standard is not expected to have a significant impact on the public sector. |

In addition to the new standards and amendments above, the AASB has issued a list of other amending standards that are not effective for the 2018-19 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on public sector reporting.

- AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements

8.5 Glossary of terms

Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non cancellable contractual or statutory sources.

Comprehensive result

Comprehensive result is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners

Employee benefits expenses

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

Financial asset

A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - (i) to receive cash or another financial asset from another entity; or
 - (ii) 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:
 - (i) 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
 - (ii) 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 liability

A financial liability is any liability that is:

- (a) A contractual obligation:
 - (i) to deliver cash or another financial asset to another entity; or
 - (ii) 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:
 - (i) 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
 - (ii) 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 balance sheet as at the end of the period;
- (b) A comprehensive operating statement for 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 paragraphs 38 of AASB 101 *Presentation of Financial Statements*; and
- (g) A statement of financial position 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 paragraphs 41 of AASB 101.

Interest income

Interest income includes unwinding over time of discounts on financial assets and interest received on bank term deposits and other investments.

Net operating balance or net result from transactions

Net operating balance or net result from transactions 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.

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 non-owner movements in equity'.

Net worth

Net worth is calculated as assets less liabilities, which is an economic measure of wealth.

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. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

Payables

Payables include short and long term trade debt and accounts payable, grants, taxes and interest payable.

Receivables

Receivables include amounts owing from government through appropriation receivable, short and long term trade credit and accounts receivable, accrued investment income, 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 Authority.

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 in 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.

8.6 Style conventions

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

.. zero, or rounded to zero

(xxx.x) negative numbers

200x year period

200x-0x year period

The financial statements and notes are presented based on the illustration for a government department in the 2018-19 *Model Report for Victorian Government Departments*. The presentation of other disclosures is generally consistent with the other disclosures made in earlier publications of the Authority's annual reports.

8.7 Disclosure index

The annual report of the Authority is prepared in accordance with all relevant Victorian legislations and pronouncements. This index has been prepared to facilitate identification of the Authority's compliance with statutory disclosure requirements.

| Legislation | Requirement | Page reference |
|---|---|----------------|
| Ministerial Direction & Financial Reporting Directions | | |
| | Report of operations | Page 5 |
| Charter and purpose | | |
| FRD 22H | Manner of establishment and the relevant Ministers | Page 5 |
| FRD 22H | Purpose, functions, powers and duties | Page 25 |
| FRD 8D | Departmental objectives, indicators and outputs | Page 5 |
| FRD 22H | Initiatives and key achievements | Page 10 |
| FRD 22H | Nature and range of services provided | Page 5 |
| Management and structure | | |
| FRD 22H | Organisational structure | Page 14 |
| Financial and other information | | |
| FRD 8D | Performance against output performance measures | |
| FRD 8D | Budget portfolio outcomes | |
| FRD 10A | Disclosure index | Page 55 |
| FRD 12B | Disclosure of major contracts | |
| FRD 15E | Executive officer disclosures | Page 49 |
| FRD 22H | Employment and conduct principles | Page 14 |
| FRD 22H | Occupational health and safety policy | |
| FRD 22H | Summary of the financial results for the year | Page 19, 21 |
| FRD 22H | Significant changes in financial position during the year | |
| FRD 22H | Major changes or factors affecting performance | |
| FRD 22H | Subsequent events | |
| FRD 22H | Application and operation of <i>Freedom of Information Act 1982</i> | Page 12 |
| FRD 22H | Compliance with building and maintenance provisions of <i>Building Act 1993</i> | Page 14 |
| FRD 22H | Statement on Competitive Neutrality Policy | |
| FRD 22H | Application and operation of the <i>Protected Disclosure 2012</i> | Page 14 |
| FRD 22H | Application and operation of the <i>Carers Recognition Act 2012</i> | |
| FRD 22H | Details of consultancies over \$10 000 | |
| FRD 22H | Details of consultancies under \$10 000 | |
| FRD 22H | Disclosure of government advertising expenditure | |
| FRD 22H | Disclosure of ICT expenditure | Page 28 |
| FRD 22H | Statement of availability of other information | |
| FRD 24D | Reporting of office based environmental impacts | |

| Legislation | Requirement | Page reference |
|---|---|-----------------------|
| FRD 25C | Victorian Industry Participation Policy disclosures | |
| FRD 29C | Workforce Data disclosures | |
| SD 5.2 | Specific requirements under Standing Direction 5.2 | Page 15 |
| Compliance attestation and declaration | | |
| SD 5.1.4 | Attestation for compliance with Ministerial Standing Directions | Page 15 |
| SD 5.2.3 | Declaration in report of operations | Page 3 |
| Financial Statements | | |
| Declaration | | |
| SD 5.2.2 | Declaration in financial statements | Page 17 |
| Other requirements under Standing Directions 5.2 | | |
| SD 5.2.1(a) | Compliance with Australian accounting standards and other authoritative pronouncements | Page 15 |
| SD 5.2.1(a) | Compliance with Ministerial Directions | Page 15 |
| SD 5.2.1(b) | Compliance with Model Financial Report | Page 15 |
| Other disclosures as required by FRDs in notes to the financial statements | | |
| FRD 9B | Departmental Disclosure of Administered Assets and Liabilities by Activity | |
| FRD 11A | Disclosure of Ex gratia Expenses | |
| FRD 13 | Disclosure of Parliamentary Appropriations | |
| FRD 21C | Disclosures of Responsible Persons, Executive Officers and other Personnel (Contractors with Significant Management Responsibilities) in the Financial Report | Page 49 |
| FRD 103G | Non Financial Physical Assets | |
| FRD 110A | Cash Flow Statements | Page 22 |
| FRD 112D | Defined Benefit Superannuation Obligations | Page 28 |

Legislation

Residential Tenancies Act 1997
Freedom of Information Act 1982
Building Act 1983
Protected Disclosure Act 2012
Carers Recognition Act 2012
Victorian Industry Participation Policy Act 2003
Financial Management Act 1994