



AASB EXPOSURE DRAFT – ED 286

**AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS
– RIGHT-OF-USE ASSETS OF NOT-FOR-PROFIT ENTITIES**

FORMAL SUBMISSION

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Lodged via AASB website “Work in Progress – Open of Comment” page.

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Wintringham – organisational background, mission and model of care

Wintringham is a Victorian not-for-profit welfare organisation founded 29 years ago on enduring principles of social justice. Our mission is to provide dignified, affordable, high quality care and accommodation to frail, elderly men and women who are homeless, disadvantaged or at risk of homelessness, a client cohort that is amongst the most socially and financially vulnerable in society.

Our service model provides a continuum of care ranging from outreach, housing and housing support, in-home aged-care and residential aged-care. With 650 dedicated staff we house and support over 2,000 clients each and every day in Melbourne and regional Victoria. In partnership with the Tasmanian government, we will soon deliver services in that State.

Our organisation operates through two entities (Wintringham and Wintringham Housing Limited) with operational funding primarily sourced from the Commonwealth government (74%), clients and residents (19%), and the Victorian government (5%). With consolidated 2018 operating revenue of \$50 million and gross assets (on-balance sheet) of \$110 million we are Australia's largest service provider to our client cohort.

With operating revenue of \$46 million, Wintringham is considered a "large charity" by the Australian Charities and Not-for-profit Commission (ACNC) and subject to their top tier of financial reporting.

Wintringham's subsidiary, Wintringham Housing Limited, is responsible for developing and delivering housing and related tenancy services for our clients. Wintringham Housing has a turnover of \$4 million and is considered a "large charity" by the ACNC and subject to their top tier of financial reporting.

Wintringham Housing is a Victorian registered Housing Association and is the only registered agency that provides services exclusively to elderly men and women who are disadvantaged, homeless or at risk of homelessness. Wintringham Housing is unique in that 100% of our clients meet the prioritised eligibility requirements of the Victorian Housing Register (VHR), the Victorian Government's recently implemented prioritised housing wait list. We focus solely on the most disadvantaged and marginalised elderly clients.

Wintringham's innovative model of care is recognised internationally. We were awarded the United Nations World Habitat Scroll of Honour in 2011. Wintringham is the first Australian organisation to be awarded this prestigious award and the only recipient worldwide that specialises in supporting the elderly.

General commentary with respect to recognising and valuing right-to-use assets (peppercorn leases)

A *Organisational interaction with right-to-use assets (peppercorn leases)*

Across both entities we have four categories of peppercorn lease arrangements. The leases have nil or nominal payment obligations and allow us to access assets, mainly parcels of land to assist us to further our organisational purpose.

The four categories of peppercorn lease we have are:

1. Land owned by the Victorian Government and leased to Wintringham under a 40-year peppercorn lease. On this land we have built a high care residential aged facility and 18 housing units.
2. Land owned by a philanthropic trust and leased to Wintringham under a 99-year peppercorn lease. This land is at multiple locations in regional Victoria and on this land we have built 172 housing units that are exclusively available to our clients.
3. Land and housing units owned by the Victorian Government and leased to Wintringham at no cost under the Department of Health and Human Services (DHHS) General Lease arrangements for social housing. The lease is for a 5-year term with an option for renewal on agreement of both parties. This land is at multiple locations in Melbourne and on this land we manage 206 independent living units.
4. Land owned by the Victorian Government and provided on an on-going basis to Wintringham under the Crown Land (Reserves) Act 1978. On this land we have built a low care residential aged facility.

Whilst the first three categories above, on face value appear to be covered by the new standards, we have yet to consider how the fourth category should be dealt with under the new standards.

Where Wintringham has constructed buildings on land covered by a peppercorn lease, it has been done with capital grant funding support from government or philanthropic partners. Obligations arising from this capital funding support, combined with similar obligations under the peppercorn leases restricts Wintringham's ability to dispose of these assets and dictates who can occupy the accommodation.

Furthermore, the focused nature of our work and resulting limited income of our clients means that the revenue generated from these assets is significantly below market value.

B *Peppercorn leases – the cost of obtaining valuations and valuation methodology*

Considering the nature of our right-to-use assets, we believe the work required to recognise peppercorn leases on balance sheet will take a considerable amount of organisational resources and external expertise. We anticipate the cost to obtain valuations of the underlying assets will be substantial. Our organisation relies on government funding for its operations and in recent years we have seen this funding reduce, relative to the cost of providing services. Any costs incurred for valuations would directly affect our ability to provide services to our clients.

For the reasons noted in this submission (including restriction of use, restriction on disposal and below market cashflow derived from the assets) traditional valuation methodology may not be

appropriate as traditional valuation methods may not achieve an outcome that is reflective of the nature and purpose of the asset. For example, a valuation method considering future cash flows and discounting these cash flows back to present value may result in an abnormal value; a valuation considering likely value on the open market disposal would equally not apply to assets with such restrictions.

Therefore, the value determined and disclosed in the financial statements may not be beneficial for the users of our report and may in fact confuse the user.

AASB specific matters for comment

Question 1

We agree with the proposed temporary option for NFP entities to not measure right-of-use assets at fair value.

Question 2

Whilst we agree with the temporary option proposed, we would support this as a permanent amendment for all not-for-profits. This permanent solution should be available for all not-for-profits regardless of the reporting category they fall within under the ACNC, either before or after the recommendations on revenue thresholds as part of the ACNC legislative review are implemented. As Wintringham's revenue is \$46 million, it is considered a "large charity" by the ACNC and subject to their top tier of financial reporting requirements. If the permanent solution is to only allow smaller charities to access this exposure draft's proposal on a permanent basis, we do not consider this an appropriate outcome.

Question 3

We believe that the inclusion of additional disclosures that are being proposed in the Exposure Draft would not negatively impact our organisation and we do consider that the nature of the additional disclosures would allow users to understand the impact of the peppercorn leases on our financial statements.

Wintringham have historically provided disclosures in our financial statements with regard to right-of-use assets held by in our organisation to ensure we provide beneficial information to the users of our report. Our historical disclosures are similar to the new requirements as set out in AASB 16.

Conclusion

The impact of recognising right-to-use assets (peppercorn leases) on balance sheet for Wintringham would be significant. We do not believe that recognising the right-of-use asset at fair value would add any benefit for the users of our annual report given the inability of Wintringham to dispose of the underlying asset and the significant restrictions placed on these assets.

In conclusion, Wintringham supports the proposals outlined in the Exposure Draft however would welcome this as a permanent amendment that allowed all not-for-profits, irrespective of size, to always measure right-of-use assets for leases with significantly below-market terms and conditions principally to enable the entity to further its objects at cost.