
IMPLICATIONS FOR COUNCIL OF NEW AND PROPOSED FINANCIAL REPORTING STANDARDS

1. Purpose

The purpose of this regular report is to inform the Subcommittee of new and proposed Financial Reporting Standards and their likely impact for the Council.

2. Recommendation

It is recommended that the Subcommittee:

1. *Receive the information*
2. *Note the developments in New Zealand generally accepted accounting practice (GAAP) since the last Subcommittee meeting in October 2006.*
3. *Approve the recommended process for review of the NZ IFRS financial statements template for the year ending 30 June 2007 as outlined in paragraph 4.1.*

3. Background

The Local Government Act 2002 requires the Council to comply with GAAP in preparing the Annual Report. GAAP is defined by the Accounting Standards Review Board (ASRB) to encompass all applicable Financial Reporting Standards (FRSs) and other sources of appropriate authoritative support (for example; exposure drafts of financial reporting standards, international accounting standards etc).

Council Officers have undertaken to report to the Subcommittee on a regular basis in relation to any new FRSs and any exposure drafts currently on issue by the New Zealand Institute of Chartered Accountants (the Institute). This report outlines developments in GAAP and the implications for the Council since the last Subcommittee meeting on 6 October 2006.

4. New Zealand International Financial Reporting Standards (NZ IFRS) Project

As the Subcommittee is aware, most local authorities will adopt NZ IFRS for external reporting purposes for the accounting period ending 30 June 2007. This means we are now five months into our first NZ IFRS reporting period.

4.1 *Template Financial Statements*

The area of major focus for the Council's NZ IFRS working group since the last Subcommittee meeting has been progressing the template financial statements for the 30 June 2007 financial year. There are very few model New Zealand IFRS financial statements specifically targeted for Public Benefit Entities (PBEs), and none specifically for local authorities. As a result, we have had to develop our own template model.

The template is currently being drafted by the Council's NZ IFRS working group. The process to date has involved extensive research of available (non PBE) NZ IFRS models, recently published annual reports prepared in accordance with NZ IFRS and other relevant material (NZ IFRS checklists, training materials etc). At the time of writing this report, we anticipate making available a working draft of the financial statements template at the 1 December meeting. This draft will be preliminary, unaudited and primarily for illustration purposes. Given the volume of information and the technical complexity, we would then propose to present a workshop between the December and March meetings to work through the information in detail. The workshop would focus on those areas of the financial statements which have changed significantly as a result of NZ IFRS (such as taxation; financial instruments; property, plant and equipment etc.)

On this basis we recommend the following process for review of the NZ IFRS financial statements template:

| Date | Activity |
|-----------------|--|
| 1 December 2006 | Subcommittee to approve process for review of NZ IFRS financial statements template. |
| Late January | Council Finance team to present workshop for Subcommittee members to work through detailed NZ IFRS disclosures. |
| February | Audit New Zealand to review and provide comment on NZ IFRS financial statements template. |
| 2 March 2006 | Subcommittee to receive updated NZ IFRS financial statements template incorporating changes arising from workshops and Audit New Zealand review. Subcommittee to provide preliminary approval for template, subject to final adoption of 30 June 2007 financial statements (anticipated August 2007). |

It is important to note that the template will reflect applicable New Zealand IFRS as at the date of preparation. As it will need to be updated to reflect ongoing amendments to New Zealand IFRS, the Subcommittee will not be able to finally approve the template until the time of finalisation of the 30 June 2007 financial statements. However, we are aiming to table a draft template at the earliest opportunity to enable the Subcommittee time to work through the practical changes that have arisen from New Zealand IFRS. Preparing the template early also ensures that the Council is well prepared for the year end, and has sufficient time to collate the information required as a result of new disclosures.

Once the Council's NZ IFRS financial statements template is finalised, we have made a commitment to also provide Group entities with a short form version for their use.

5. Developments in Financial Reporting Standards

5.1 Submissions Made

The Council makes submissions on exposure drafts where there is potential for a significant impact on either the Council as a reporting entity or the level of funding provided by ratepayers. We also consider whether the proposals are appropriate, in our opinion, from a standard setting perspective.

No new submissions have been made by the Council since the last Subcommittee meeting in October.

5.2 Exposure Drafts on Issue

The following exposure draft is currently open for comment:

- Not-for Profit Financial Reporting Guide

While we do not expect to make a submission on this exposure draft on behalf of Council, we have encouraged the smaller entities in the Group (for whom the Guide is more specifically targeted) to review and consider this material.

6. Conclusion

The major focus of the working group is on drafting the Council's first NZ IFRS financial statements template. Due to the absence of any PBE models, the working group has developed its own recommended template. This is based on the private sector models and NZ IFRS annual reports, adjusted for any PBE specific disclosures.

We propose working with the Subcommittee between the December and March meetings to present the financial statements template, and work through the impact of the change.

We will circulate any key documents prepared to Subcommittee members as they become available. We will also continue to report developments in NZ IFRS to the Subcommittee on a quarterly basis.

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| Supporting Information |
| <p>1) Strategic Fit/Strategic Outcome</p> <p><i>This project supports Key Achievement Area 9 Governance and Citizen Information: As per the Annual Plan, Governance and Citizen Information includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.</i></p> |
| <p>2) LTCCP/Annual Plan reference and long term financial impact</p> <p><i>Relates to C534: Committee and Council process</i></p> |
| <p>3) Treaty of Waitangi considerations</p> <p><i>There are no Treaty of Waitangi implications</i></p> |
| <p>4) Decision-Making</p> <p><i>This is not a significant decision</i></p> |
| <p>5) Consultation</p> <p>a) General Consultation</p> <p><i>Not required</i></p> <p>b) Consultation with Maori</p> <p><i>Not required</i></p> |
| <p>6) Legal Implications</p> <p><i>None</i></p> |
| <p>7) Consistency with existing policy</p> <p><i>This report is consistent with existing Wellington City Council policy</i></p> |