
REPORT 3
(1215/52/01/1M)

IMPLICATIONS FOR COUNCIL OF NEW AND PROPOSED FINANCIAL REPORTING STANDARDS

1. Purpose of Report

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

2. Recommendations

Officers recommend that the Audit and Risk Management Subcommittee:

- 1. Receive the information.*
- 2. Note the developments in New Zealand generally accepted accounting practice (GAAP) since the last regular Subcommittee meeting on 6 December 2011.*
- 3. Note the implications of the Local Government (Financial Reporting) Regulations 2011 on the Council's financial reporting.*

3. Background

The Local Government Act 2002 requires the Council to comply with GAAP in preparing the Annual Report. GAAP is defined by the External Reporting Board (XRB) 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 IFRSs 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 regular Subcommittee meeting on 6 December 2011. Although not currently applicable for the Council, developments in International Public Sector Accounting Standards (IPSAS) will also be presented to this Subcommittee for completeness. These developments will become more relevant going forward as a result of the External Reporting Board (XRB) proposal to develop a set of NZ Public Benefit Entity (PBE) standards based on IPSAS.

4. Developments in Financial Reporting Standards

4.1 Submissions

The Council makes submissions on discussion papers or exposure drafts where there is potential for it to have 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.

4.1.1 Submissions made

Since the last regular Subcommittee the Council has made one submission on the consultation document issued by the XRB on the Accounting Standards Framework for General Purpose Financial Reporting by Public Benefit Entities. This submission was presented to the Subcommittee at the 6 December 2011 meeting.

4.2 Summary of exposure drafts reviewed since last Subcommittee meeting

Exposure drafts are divided between exposure drafts with a potential impact for the Council and those with limited or no expected impact.

4.2.1 Exposure drafts reviewed with potential impact for Council reporting

Exposure Draft/ Discussion Paper	Impact/Summary
ED/2011/6 Revenue from contracts with customers	<p>The proposed standard will result in some minor changes to the accounting policies, specifically the timing of recognition of the customers' credit risk and the timing of recognition of income.</p> <p>The proposed standard also requires that the measure of collectability be reported as contra-revenue directly below revenue in the profit or loss. Currently our provision for doubtful debts is reported as part of the balance of Expenditure on Operating Activities in the Statement of comprehensive income.</p>

4.2.2 Exposure drafts reviewed with limited or no expected impact on Council reporting

Exposure Draft/ Discussion Paper	Impact/Summary
ED/2011/7 Transition Guidance (Proposed amendments to IFRS 10)	IFRS 10 is a new standard which is only applicable to for-profit entities. This ED gives some transition guidance for entities moving from IAS 27 to IFRS 10. This includes clarification around what disclosures are required when the consolidation conclusions reached are not the same under the two standards. No impact for the Council – as a PBE we are not permitted to adopt this new standard.
XRB ED 2011-1 Omnibus amendments	This exposure draft proposes several minor amendments to a number of NZ IFRS as part of its annual improvements project. There is no significant impact expected for the Council.
IASB ED/2011/5 Government loans	The proposal relates to changes to IFRS 1 First time adoption of International Financial Reporting Standards. No impact for the Council – we have already adopted IFRS.

4.2.3 Exposure drafts relating to International Public Sector Accounting Standards (IPSAS)

While the Council is not currently required to apply International Public Sector Accounting Standards (IPSAS), we continue to review them and assess the impact on the Council if we were required to move to reporting under IPSAS.

Exposure Draft/ Discussion Paper	Impact/Summary
IPSASB ED46: Reporting on the long-term sustainability of a public sector entities finances	The purpose of the recommended practice guideline is to provide guidance on how to present information on a PBE's long-term fiscal sustainability as a supplement to the information in the general purpose financial statements and meet the objectives of financial reporting - accountability and decision-making.

	<p>The outcome will only be a guideline and not an IPSAS standard. However explanation for the non-adherence will be required disclosure.</p> <p>Much of the information in the guidance would already be included in our Long Term Plan which is updated every three years. The ED recommends updating this information annually but suggest it may not be realistic for all entities particularly those at a sub-national level.</p> <p>Assuming this guidance is included in NZ IPSAS, once the final standards are issued, the Council may need to consider some extra narrative discussion around fiscal sustainability in the Long Term Plan and possibly additional presentational methods such as graphs and the use of indicators.</p>
<p>IPSASB Consultation paper – Reporting service performance information</p>	<p>The consultation paper suggests a standard terminology to be used for service performance reporting. The standard terminology suggested is: Objectives, performance indicators, inputs, outputs, outcomes, efficiency indicators and effectiveness indicators.</p> <p>Also discussed are the needs of users of service performance information, which components of service performance information should be included in the reports and the qualitative characteristics (relevance, faithful representation, understandability, timeliness, comparability and verifiability) and constraints on service performance reporting (materiality and cost/benefit)</p> <p>No significant impact is expected to the current service performance reporting based on the information contained in the consultation paper.</p>

4.3 Exposure drafts on Issue

The following exposure drafts are currently open for comment and will be reviewed by the Council before the next subcommittee meeting:

- IPSASB Consultation paper – Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports

We are currently reviewing these exposure drafts to determine any potential impacts on the Council. We will provide analysis of impacts for the Council and copies of any submissions made at the next Subcommittee meeting.

4.4 Local Government (Financial Reporting) Regulations 2011

In July 2011 the Local Government (Financial Reporting) Regulations 2011 came into effect as part of the changes to the Local Government Act 2011 resulting from the Local Government Transparency, Accountability and Financial Management review.

These regulations introduce some changes to the presentation of a local authority's financial statements as well as changing the content and format of the funding impact statements.

The financial statements presentation changes are as follows:

- Separate disclosure in the statement of comprehensive income the amount of income received from:
 - Rates other than a targeted rate for water supply
 - Development and financial contributions
 - Subsidies and grants
- Separate disclosure in the statement of financial position the sum of investments in CCOs
- Separate disclosure in the notes to the financial statements of the total amount of depreciation and amortisation for each group of activities.

The funding impact statements have to be presented in the prescribed format in the regulations. This format is prescribed separately for the Long Term Plan, Annual Plan and Annual Report.

The changes noted above apply for the Council's 2012-22 Long Term Plan and any Annual Plans from this period onwards. For the Annual Report these changes come into effect for the 2012/13 Annual Report. The Council is not proposing to change the presentation of the 2011/12 Annual Report which will be consistent with the 2010/11 Annual Report and the 2011/12 Annual Plan. We note that this will mean that comparatives may need to be changed for the 2012/13 Annual Report.

5. Conclusion

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

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Supporting Information

1) Strategic Fit / Strategic Outcome

The report supports Council's overall vision by ensuring that legislative compliance with GAAP (NZ IFRS) is appropriately managed.

2) LTCCP/Annual Plan reference and long term financial impact

The report has no specific Annual Plan reference. There is no long term financial impact arising from the report.

3) Treaty of Waitangi considerations

There are no specific Treaty of Waitangi considerations.

4) Decision-Making

There are no significant decisions required by the paper.

5) Consultation

a) General Consultation

There are no parties significantly affected by this paper.

b) Consultation with Maori

Maori are not significantly affected by this paper.

6) Legal Implications

This report has no specific legal implications.

7) Consistency with existing policy

This report is consistent with existing policy.