

## REPORT 2

### **IMPLICATIONS FOR COUNCIL OF 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. In this update we will also provide a high level update on the recent changes to the New Zealand Financial Reporting framework.

#### **2. Executive summary**

The Council will be transitioning to a new set of New Zealand public sector accounting standards “Public Sector PBE Standards” on 1 July 2014.

The following exposure drafts are likely to have some impact for the Council if they form the basis for future Public Sector PBE Standards:

- ED IPSASB 50, Investments in Associates and Joint Ventures
- ED IPSASB 52, Disclosure of Interests in Other Entities.
- ED IASB 2013-6 *Leases*

#### **3. Recommendations**

Officers recommend that the Audit and Risk Subcommittee:

1. *Receive the information*
2. *Note the developments in New Zealand generally accepted accounting practice (GAAP) since the last regular Subcommittee meeting on 17 June 2013.*

#### **4. 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 IFRS's or PBE standards and any exposure drafts currently on issue by XRB. This report outlines developments in GAAP and the implications for the Council since the last regular Subcommittee meeting on 17 June 2013.

## 5. Discussion

### 5.1 New Zealand Accounting Standards Framework

#### International Standards

##### Standards For-profit Entities

**International Accounting Standards Board (IASB).**  
Responsible for the development and publication of International Financial Reporting Standards (IFRS's).

IFRS's

##### Public Sector Standards

**International Public Sector Accounting Standards Board (IPSASB).**  
Responsible for the development of International Public Sector Accounting Standards (IPSAS) for financial reporting by governments and other public sector entities.

IPSAS

#### National Standards (New Zealand)

##### Standards For-profit Entities

New Zealand International Financial Reporting Standards (NZ IFRS's)

*NZ IFRS – are based on the IASB IFRS*

##### New Zealand Accounting Standards Board (NZASB)<sup>1</sup>

<sup>1</sup> The New Zealand Accounting Standards Board (NZASB) is a Committee of the XRB Board established under schedule 5 of the Crown Entities Act.

The NZASB has delegated authority from the XRB Board to develop or adopt and issue accounting standards for general purpose financial reporting in New Zealand. In doing so the NZASB must operate with the financial reporting strategy established by the XRB Board.

##### Public Sector Standards

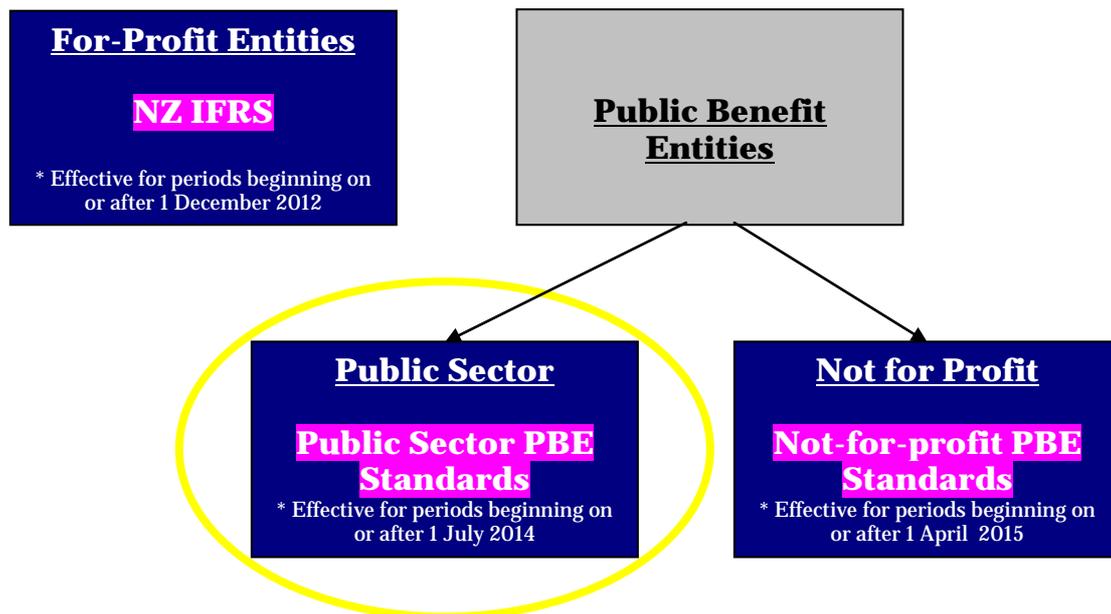
Public Sector PBE Standards (PBE Standards)

*Public Sector PBE Standards – are based on the IPSASR IPSAS*

**NOTE:** The Council is currently applying an interim set of standards (NZ IFRS PBE) until we transition to the new Public sector PBE standards on 1 July 2014. The NZ IFRS PBE standards are effectively the old NZ IFRS standards with PBE paragraphs that have remained frozen until the transition to the new Public sector PBE standards.

*This report is officer advice only. Refer to minutes of the meeting for decision.*

In 2011 the External Reporting Board (XRB) made the decision that New Zealand should move to a multi- standards framework. Under the multi-standards framework “For-Profit Entities” will continue to apply NZ IFRS and “Public Benefit Entities” will report under a new set of standards - PBE Standards. PBE Standards are based on International Public Sector Accounting Standards.



The Council will transition from NZ IFRS PBE Standards to the Public Sector PBE Standards. The 2013/14 Annual Report will be the Council’s last report under NZ IFRS PBE. In the 2014/15 Annual report we will be required to restate the 2013/14 financial results as part of our transition to the new Public Sector PBE Standards.

Council Officers have been working with PricewaterhouseCoopers, Audit New Zealand and other Councils (Auckland/Tauranga/Hamilton and Christchurch) in assessing the impact on transitioning to the Public Sector PBE Standards. Council Officers will provide an update on this transition at the next Subcommittee meeting.

The Council considers the impact of both Domestic and International Public Sector PBE Standards and Standards issued for For-Profit Entities.

#### Public Sector PBE Standards Development

- Domestic  
NZASB – Standards issued will become part of the Public Sector PBE’s – these will likely impact Council.
- International  
IPSASB – Rebuttable presumption that any standards issued by the IPSASB – will be adopted by NZASB as PBE’s – these will likely impact Council.

#### International Financial Reporting Standards (IFRS’s) Development

- Domestic and International (NZASB & IASB)  
The Council also considers the potential impact of IFRS’s issued both Internationally (IASB) and Nationally (NZASB). This is because the IFRS’s and

Public Sector PBE's are largely aligned in current form. Although new IFRS's will not be applicable to the Council they may give some indication as to the direction of future Public Sector PBE Standards. However there is an expectation within the accounting community that IFRS and IPSAS may diverge in the future.

## 5.2 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.

### 5.2.1 Submissions made

No submissions have been made since the last regular sub-committee meeting.

## 5.3 Summary of exposure drafts and Standards likely to have some impact for the Council (Issued post 17 June 2013 Subcommittee meeting)

Standard/Exposure Draft/Discussion Paper	Status	Summary/Impact
<b>Public Sector PBE Standards Development</b>		
<i>International PBE exposure drafts issued (IPSASB)</i>		
<b>ED IPSASB 48-52</b>  <b>ED 50</b> , Investments in Associates and Joint Ventures.		ED 50 establishes the principles for the accounting of investments in associates.  Two entities (Basin Reserve Trust & Wellington Regional Stadium Trust) the Council currently recognises as investments in associates would fail to meet the recognition criteria under PBE Public Sector IPSAS 7.  This could potentially lead to de-recognition of the Trusts from the Council Group Balance sheet (\$38m as at 30 June 2013).  Council Officers are currently working through the impact of transition to the Public Sector PBE standards, an update to the Audit and Risk Subcommittee in coming meetings.
<b>ED IPSASB 48-52</b>  <b>ED 52</b> , Disclosure of Interests in Other Entities.		Should the exposure draft become a PBE standard in its current form The Council may need to disclose additional information around the assumptions, judgements and methodology used to determine the classification of entities within its separate and consolidated group financial statements. This exposure draft would only result in increased disclosure.
<b>International Financial Reporting Standards (IFRS's) Development</b>		
<i>International For-profit exposure drafts issued (IASB)</i>		
<b>ED IASB 2013-6</b> Leases.		Lessee The exposure draft proposes fundamental changes to lease accounting which would bring most leases on balance sheets for lessees.  Under current standards most leases are not reported on a lessee's balance sheet.

Standard/Exposure Draft/Discussion Paper	Status	Summary/Impact
		<p>If this standard flows through to IPSAS/PBE then the Council will have an increase in its reported assets and liabilities for all leases greater than 12 months on its balance sheet.</p> <p>At 30 June 2013 the lease commitments for Council as lessee were \$4.5m.</p> <p>Lessors The exposure draft proposes few changes to the accounting applied by lessors of finance leases. For operating leases of property, the accounting applied by the lessor is essentially unchanged. Therefore there is no expected impact for the Council from a lessor point of view.</p> <p>Note there are significant proposed changes for operating leases of equipment or vehicles, as the Council does not act as a lessor in these arrangements there is no anticipated impact.</p>
<b>KEY</b>		
<b>Significant Impact</b>		
<b>Minor Impact</b>		
<b>No Impact</b>		

A Complete list of all exposure drafts and standards reviewed since the last Subcommittee meeting is included in Appendix 1.

#### **5.4 Exposure drafts on issue**

The following exposure drafts are currently on issue and will be reviewed before the next regular sub-committee meeting:

N/A all current exposure drafts on Issue have been included within this report.

#### **5.5 Consultation and Engagement**

There are no parties significantly affected by this paper.

#### **5.6 Financial considerations**

Refer to section 5.3 above.

#### **5.7 Climate change impacts and considerations**

There is no climate change impacts and consideration arising from the report.

#### **5.8 Long-term plan considerations**

The report has no specific Long-Term Plan considerations.

### **7. Conclusion**

We will also continue to report developments in Financial Reporting Standards to the Subcommittee on a quarterly basis including their likely impact on The Council.

Contact Officer: *Ben Rodgers, Manager, Financial Accounting*

**Appendix 1: Summary of exposure drafts reviewed since the last committee meeting**

Standard/Exposure Draft/Discussion Paper	Summary	Status	Impact
<b>Public Sector PBE Standards Development</b>			
<i>Domestic PBE exposure drafts issued (NZASB)</i>			
<b>ED NZASB 2013-5</b> - Enhancements to the PBE Standards for Not-For-Profit Entities.	The initial suite of PBE Standards that was issued in May 2013 was developed primarily with public sector entities in mind. This Package contains the proposed enhancements to those PBE Standards to make them appropriate for application by Tier 1 and Tier 2 Not-For-Profit entities.		No impact for the Council.  The proposed changes will only impact the reporting requirements for Not-For-Profit PBE's (Not Public Sector PBE's).
<i>International PBE exposure drafts issued (IPSASB)</i>			
<b>ED IPSASB 54</b> - Reporting Service Performance Information.	The proposed Recommended Practice Guideline (“RPG”) addresses the need for guidance on reporting service performance information.  This proposed RPG aims to support the provision of high quality service performance information by entities, whether they are already reporting service performance information or plan to begin reporting such information in the future.		No impact for the Council.  Entities are not required to comply with this RPG in order to assert that an entity’s financial statements comply with International Public Sector Accounting Standards (IPSAS’s).
<b>ED IPSASB 53</b> - First time adoption of accrual accounting for public sector entities.	The objective of the exposure draft is to provide a comprehensive set of principles that provide relief to entities that adopt the accrual basis International Public Sector Accounting Standards (IPSAS’s) for the first time.		No impact for the Council.  The Council currently reports on an accrual basis.

Standard/Exposure Draft/Discussion Paper	Summary	Status	Impact
<p><b>ED IPSASB 48-52</b> on Accounting for Interests in Other Entities.</p> <p><b>ED 48</b>, Separate Financial Statements.</p> <p><b>ED 49</b>, Consolidated Financial Statements.</p> <p><b>ED 50</b>, Investments in Associates and Joint Ventures.</p> <p><b>ED 51</b>, Joint Arrangements.</p> <p><b>ED 52</b>, Disclosure of Interests in Other Entities.</p>	<p><b>ED 48</b>, Separate Financial Statements.</p> <p>When an entity prepares separate financial statements, ED 48 permits investments in controlled entities, jointly controlled entities and associates to be accounted for at cost, using the equity method (as described in ED 50) or as a financial instrument as per PBE IPSAS 29.</p>	●	<p>No impact for the Council.</p> <p>The Council now has an additional measurement option of equity accounting for investments in its separate financial statements. The Council has no intention to deviate from its current measurement basis of carrying investments at cost in the Council's separate financial statements.</p>
	<p><b>ED 49</b>, Consolidated Financial Statements.</p> <p>ED 49 redefines the principle of control and sets out how to apply this to identify whether there is control and therefore a requirement to consolidate.</p>	●	<p>No impact for the Council.</p> <p>All Council controlled entities (subsidiaries) are owned 100% by Council.</p>
	<p><b>ED 50</b>, Investments in Associates and Joint Ventures.</p> <p>ED 50 establishes the principles for the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The proposals are very similar to the current guidance in IPSAS 7; the key difference is that the ED encompasses joint ventures.</p>	●	<p><b>Significant Impact for Council.</b></p> <p>The Councils initial review of Public Sector PBE IPSAS 7 identified that the scope of an associate only applies to investments where the investor holds an ownership interest in the form of a shareholding or other formal equity structure.</p> <p>Two entities (Basin Reserve</p>

<b>Standard/Exposure Draft/Discussion Paper</b>	<b>Summary</b>	<b>Status</b>	<b>Impact</b>
			<p>Trust &amp; Wellington Regional Stadium Trust) the Council currently recognises as investments in associates would fail to meet the recognition criteria under PBE Public Sector IPSAS 7.</p> <p>This could potentially lead to de-recognition of the Trusts from WCC Group Balance sheet (\$38m as at 30 June 2013).</p> <p>Council Officers are currently working through the impact of transition to the Public Sector PBE standards and will provide an update to the Audit and Risk Subcommittee in coming meetings.</p>

Standard/Exposure Draft/Discussion Paper	Summary	Status	Impact
	<p><b>ED 51, Joint Arrangements</b></p> <p>ED 51 establishes the principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (joint arrangements).</p> <p>The current legislation allows the financial statements of a venturer to use either the proportionate consolidation method or the equity method, however ED 51 takes away this choice.</p> <p>Joint operations have to be consolidated into the operators' financials by recognizing assets, liabilities, revenue, and expenses arising from its interest in the joint operation.</p> <p>Joint ventures have to be consolidated into the venturers' financials as an investment, using the equity method.</p>		<p>No impact for the Council.</p> <p>The Council has a joint operation with Porirua City Council (Spicer Valley Landfill 21.5% and Wastewater Treatment Plant 27.6%) This is currently consolidated in the financial statements of the Council as the proportionate interest in the assets, liabilities, revenue and expenditure and consolidated in the Group financial statements on a line-by-line basis. As a joint operation this method of consolidation will continue.</p>
	<p><b>ED 52, Disclosure of Interests in Other Entities.</b></p> <p>ED 52 brings together the disclosures that were part of IPSAS's 6-8 and also introduces some new disclosure requirements.</p> <p>The new disclosure requirements in ED 52 will require the Council to go through and disclose, for each entity Council includes in its separate and consolidated Group financial statements;  Information about interests in other entities;  Significant judgements and assumptions made;</p>		<p><b>Minor Impact for the Council.</b></p> <p>Should the exposure draft become a PBE standard in its current form The Council may need to disclose additional information around the assumptions, judgements and methodology used to determine the classification of entities within its separate and</p>

Standard/Exposure Draft/Discussion Paper	Summary	Status	Impact
	Disclosure of the methodology used to determine control, joint control or significant influence and type of joint arrangement.		consolidated group financial statements.
<b>ED IPSASB Conceptual Framework ED: Phase 4 - Presentation</b>	This is the 4 <sup>th</sup> phase of the creation of a conceptual framework for the IPSASB. This phase relates to Presentation in General Purpose Financial Reports. The Presentation section highlights considerations to be made when deciding the required disclosure in IPSAS Standards.		No impact for the Council.  The conceptual framework has no direct impact on reporting for Council but will be used by the IPSASB when preparing future Standards.
<b>International Financial Reporting Standards (IFRS's) Development</b>			
<i>Domestic For-profit exposure drafts issued (NZASB)</i>			
<b>ED NZASB 2014 – 1 - Proposed Disclosure Concessions for Tier 2 For-profit Entities: Hedge Accounting.</b>	ED NZASB 2014-1 proposes disclosure concessions for Tier 2 for-profit entities in respect of NZ IFRS 9 (2013) Financial Instruments (Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39).  The proposed disclosure concessions are identical to those approved by the Australian Accounting Standards Board in December 2013 for Tier 2 entities reporting in Australia.		No impact for the Council.  The application of NZIFRS 9 has no impact for the Council at this point in time. As the Council is currently under an IFRS change freeze as we transition to the PBE Standards. The Council currently applies the NZ IAS 39, the PBE Standards only equivalent of NZ IAS 39 is PBE IPSAS 29 Financial Instruments: Classification

<b>Standard/Exposure Draft/Discussion Paper</b>	<b>Summary</b>	<b>Status</b>	<b>Impact</b>
			and Measurement.
<b>ED NZASB 2013-6</b> Proposed Disclosure Concessions for Tier 2 For-profit Entities: IASB ED/2013/6 Leases.	The initial suite of PBE Standards that was issued in May 2013 was developed primarily with public sector entities in mind. This Package contains the proposed enhancements to those PBE Standards to make them appropriate for application by Tier 1 and Tier 2 NFP entities.		No impact for the Council.  If this Standard flows through to IPSAS/PBE then some of our NFP/PBE subsidiaries may benefit from the reduced disclosure. However it is important to note that for consolidation purposes our subsidiaries will be required to prepare this analysis for consolidation by Council even though it may not be disclosed in their own financial statements.
<b>ED NZASB 2013-4</b> <i>Statutory Funds (Amendments to Appendix C of NZ IFRS 4).</i>	Proposes amendments to NZ IFRS 4 to require disclosure of information about solvency margins for life insurance funds.		No impact for the Council.  The Standard is applicable to Life Insurers.
<i>International For-profit exposure drafts issued (IASB)</i>			
<b>ED IASB 2013-11</b> Annual Improvements to IFRS's 2012–2014.	The IASB has published an exposure draft of five proposed amendments to four International Financial Reporting Standards (IFRS's) under its annual improvements project. The amendments are based around additional disclosures.		No impact for the Council.  If this Standard flows through to IPSAS/PBE then it is unlikely to have any impact upon the Council as the additional disclosures are not applicable for the Council.

Standard/Exposure Draft/Discussion Paper	Summary	Status	Impact
<b>ED IASB 2013-10</b> Equity Method in Separate Financial Statements (Proposed amendments to IAS 27).	The proposal is to amend IFRS 10 to allow equity reporting of controlled entities in the parent financial statements. This is already allowed under PBE IPSAS 6 <i>Consolidated and Separate Financial Statements</i> .		No impact for the Council.  The Council Currently has an additional measurement option of equity accounting for investments in its separate financial statements. The Council has no intention to deviate from its current measurement basis of carrying investments at cost in the Council's separate financial statements.
<b>DP IASB 2013-1</b> A Review of the Conceptual Framework for Financial Reporting.	The IASB is continuing a review of their Conceptual Framework. The review will focus on the following areas: definition of assets and liabilities, recognition and derecognition of assets, measurement, equity, profit and loss and other comprehensive income and presentation and disclosure.  The objective of the project is to improve financial reporting by providing the IASB with a complete and updated set of concepts to use when it develops or revises International Financial Reporting Standards (IFRS's).		No impact for the Council.  The conceptual framework has no direct impact on reporting for Council but will be used by the IASB when preparing future Standards.
<b>ED IASB 2013-8</b> <i>Agriculture: Bearer Plants.</i>	The proposal is applicable to bearer plants under NZ IAS 41 agriculture where bearer plants would be treated as property, plant and equipment.		No impact for the Council.  The council owns no bearer plants.

Standard/Exposure Draft/Discussion Paper	Summary	Status	Impact
<b>ED IASB 2013-7 Insurance Contracts.</b>	The proposal aims to improve financial reporting by providing a consistent basis for the accounting for insurance contracts and to make it easier for users of financial statements to understand how insurance contracts affect an entity's financial position, financial performance and cash flows.		No impact for the Council.  The proposal affects any entity that issues insurance contracts, the Council does not issue insurance contracts.
<b>ED IASB 2013-6 Leases.</b>	The exposure draft proposes fundamental changes to lease accounting which would bring most leases on balance sheets for lessees.  Under current standards most leases are not reported on a lessee's balance sheet.		<b>Minor Impact for Council</b>  If this Standard flows through to IPSAS/PBE then the Council will have an increase in its reported assets and liabilities for all leases greater than 12 months on its balance sheet.  At 30 June 2013 the lease commitments for Council as lessee were \$4.5m.
<b>Key</b>			
<b>Significant Impact</b>			
<b>Minor Impact</b>			
<b>No Impact</b>			

## **SUPPORTING INFORMATION**

### **1) Strategic fit / Strategic outcome**

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

### **2) LTP/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.