

2. PROPOSED CHANGE IN ACCOUNTING FOR LANDFILL AFTERCARE COSTS AND DRAFT ANNUAL REPORT

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The purpose of this report is twofold. Firstly, to seek the Committee's approval of the proposed change to the accounting policies for accounting for landfill aftercare costs. The second purpose is for the Committee to adopt the draft financial statements for audit.

1. LANDFILL AFTERCARE COSTS

The Local Government Act requires the Council to comply with generally accepted accounting practice (GAAP). This includes all Financial Reporting Standards issued by the Financial Reporting Standards Board.

The Financial Reporting Standards Board has issued Financial Reporting Standard FRS-15, Provisions, Contingent Liabilities and Contingent Assets. It applies to general purpose financial reports covering periods ending on or after 31 October 2001.

The Financial Reporting Standards Board has issued Financial Reporting Standard FRS-3, Accounting for Property, Plant and Equipment that applied for the Council from 1 July 2000. Paragraph 5.6 states that the cost of an item includes the cost of dismantling and removing the asset and restoring the site. This is effectively what the landfill aftercare costs are for.

The present accounting policy for accounting for landfills is as follows:

The Council estimates the future aftercare costs in today's dollars. The full aftercare liability is progressively recognised as the landfill is filled up in proportion to the capacity of the landfill. The cost of future aftercare is not included in the cost of the landfill asset.

FRS-15 requires a liability to be fully recognised when an event occurs that results in the entity having no realistic alternative to settling the obligation created by the event. As a consequence, the Council is now required to recognise the total estimated aftercare costs for Burwood Landfill and depreciate these costs over the remaining useful life of the Burwood Landfill.

Paragraph 5.6 states that the cost of an item includes the cost of dismantling and removing the asset and restoring the site. This is effectively what the landfill aftercare costs are for. Therefore, the Council is now required to recognise the total estimated aftercare costs for Burwood Landfill as part of the cost of the landfill asset.

The financial implications of the change are as follows:

Increase in the cost of Burwood Landfill	\$8,202,042
Increase in the accumulated amortisation of the Burwood Landfill	\$5,858,601
Net increase in the book value of Burwood Landfill	\$2,343,441
Increase in the Provision for Aftercare Costs	\$1,400,000
Net increase in Assets	\$943,441
Net increase credited directly to Retained Earnings	\$943,441
Difference in charge for Aftercare Costs for the year ended 30 June 2002, an immaterial	\$200,000

2. DRAFT ANNUAL REPORT

The Council's draft Annual Report has been separately circulated. The Council is responsible for ensuring that it is prepared in accordance with generally accepted accounting practice and is formally adopted by 30 November 2002. This responsibility has been delegated to the Budget Scrutiny and Audit Committee.

The formal adoption of the final report is programmed to occur at the 25 November meeting of the Committee.

Audit New Zealand requests that the Council formally adopts the draft Annual Report for audit as it facilitates the discussion and resolution of any issues while there is time to address them.

Staff

- Recommendation:**
1. That the Committee approve the change in accounting policies for landfill aftercare costs.
 2. That the Committee adopt the draft financial statements for the year ended 30 June 2002 for audit.

Chairperson's

Recommendation: That the above recommendation be adopted.