

9. CHANGES TO NZ IFRS - COMPLIANT ACCOUNTING POLICIES

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PURPOSE OF REPORT

1. The purpose of this report is to make recommendations to the Audit and Risk Subcommittee regarding changes to the current NZ IFRS-compliant accounting policies for the LTCCP and with respect to future years

EXECUTIVE SUMMARY

2. It is recommended that the policies adopted in February 2006 be amended to classify "other" financial instruments as "available-for-sale". This change is required due to a change in meaning of the term "fair value through profit or loss" in NZ IAS 39. The change was introduced as there was concern that entities may manipulate their earnings by designating certain assets as "fair value through profit or loss" with changes in value flowing through the income statement. Designation as "available-for-sale" will mean that changes in the value of these financial instruments will be put to a reserve in equity, until the instrument is sold or disposed of, when the cumulative gain/loss recognised in equity will be recognised in profit or loss.
3. The note detailing rates of depreciation on restricted assets does not consider planted areas, sealed areas within reserves or structures within reserves. It is proposed that the note be expanded to include those areas.
4. The revenue note makes no mention of development contributions. It is proposed that it be amended to correct this.

FINANCIAL AND LEGAL CONSIDERATIONS

5. Adopting the change to the NZ IFRS-compliant accounting policies will have a negligible impact on the Council's profit and loss and balance sheet, and is required in order to comply with NZ IAS 39.

STAFF RECOMMENDATIONS

It is recommended that the following changes be made:

- (a) The Investment note (i) be changed as follows:
Delete:
"(i) Council investment in subsidiaries"
Add:
(i) "Investment in subsidiaries and associates
For the purposes of the parent company financial statements, the Council's equity investments in its subsidiary companies are designated as available-for-sale financial assets. They are measured at fair value, with valuations performed by an independent, external valuer with sufficient regularity to ensure no investments are included at a valuation that is materially different from fair value. The valuation changes are held in a revaluation reserve until the subsidiary is sold."
- (b) The Investment note "(ii) Investments in debt and equity securities" be changed by deleting the sentence:
"Other financial instruments held by the Council are classified as being fair value through profit or loss and are stated at fair value, with any resultant gain or loss flowing through the income statement", and replacing with:
"Other financial instruments held by the Council are classified as being available for sale and are stated at fair value. The valuation changes are held in a revaluation reserve until the instrument is sold."

- (c) The note on "Property, plant and equipment" be amended as follows:
Delete "Restricted assets are not depreciated except for historic buildings, artworks and heritage assets that are depreciated on a straight line basis at 1%, 0.1% and 0.1% respectively."
Add:
- | | |
|-------------------------|---------------|
| "Restricted Assets | |
| Planted areas | 5 to 110 yrs |
| Reserves - sealed areas | 10 to 40 yrs |
| Reserves - structures | 25 to 150 yrs |
| Historic buildings | 100 yrs |
| Art works | 1000 yrs |
| Heritage assets | 1000 yrs" |
- (d) Note 22 "Revenue Recognition" be amended by adding: "(vii) Development contributions are recognised in the income statement in the year in which they are received."