Impact Statement: Adopting New Zealand Equivalents to IFRS

In December 2002 New Zealand's accounting standard-setting bodies announced a significant change to financial reporting standards. Reporting entities have the option to adopt New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for accounting periods beginning after 1 January 2005; with mandatory adoption required from 1 January 2007. The Council intends to adopt NZ IFRS for external reporting purposes (Annual Report and Long Term Council Community Plan (LTCCP)) for the accounting period commencing 1 July 2006.

Managing the Transition

In late 2004 the Council established a steering committee, comprised of staff and external consultants, to oversee the adoption of NZ IFRS. As part of this process the accounting policies of the Council were updated and the 1 July 2005 Balance Sheet restated to ensure they are fully NZ IFRS compliant.

Key Differences in Accounting Policies

As at the date of this impact statement, the project team has identified the following key differences in the Council's accounting policies that will have a material impact on the presentation of the Council's financial position in this LTCCP:

1. Deferred Taxation

In accordance with current NZ GAAP, deferred taxation is calculated on an income statement approach. Under NZ IFRS, deferred taxation will be calculated on the balance sheet approach. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.

Differences identified include a deferred tax liability on properties rented to subsidiary companies, and a deferred tax asset for unrecognised tax losses. For the 2005/06 year, this impact is estimated as a net deferred tax liability of $12.4 million. This liability has been incorporated into the balance sheet for the years 2006/07 to 2015/16 on a pro-rata basis.

2. Financial Instruments – Reclassification of Cash and Cash Equivalents

Under current NZ GAAP, cash and cash equivalents includes short-term investments with a maturity of less than one year. Under NZ IFRS, cash and cash equivalents include short-term investments with maturity of less than 90 days.

The impact on the LTCCP is a reclassification of assets from Cash and Cash Equivalents to Current Financial Instruments. For the 2005/06 year, the amount reclassified is estimated as $56.7 million. This reclassification has been incorporated into the balance sheet for the years 2006/07 to 2015/16 on a pro-rata basis.

3. Investment Property

The Council will disclose its investment properties separately from other operational assets. An adjustment has been made to the 2005/06 budget, in the amount of $9.3 million, for this reclassification. This reclassification has been incorporated into the balance sheet for the years 2006/07 to 2015/16 on a pro-rata basis.

4. Intangible Assets

The Council will disclose its intangible assets separately from other operational assets. An adjustment has been made to the 2005/06 budget, in the amount of $4.1 million, for this reclassification. This reclassification has been incorporated into the balance sheet for the years 2006/07 to 2015/16 on a pro-rata basis.

Cautionary Note

The information provided in this impact statement is for indicative purposes only. The actual impact of the transition to NZ IFRS on the LTCCP may vary from the information presented above. Accordingly, the impact of any variation from the information presented above may be material.