Impact assessment: Transition to PBE IPSAS

In determining the impact the transition to IPSAS has on the Council's financial statements, officers have reviewed each of the new standards and prepared a summary of impacts. This assessment of impact has been guided by views expressed by the External Reporting Board (XRB) and the Society of Local Government Managers (SOLGM) from a local government perspective.

The key change identified that impacts Council is:

- The classification and reporting implications of revenue between exchange and non-exchange transactions.

Classification of revenue

One of the main differences of PBE IPSAS, compared to the current reporting standards applied by Council, is around the classification of revenue between exchange and non-exchange transactions.

Exchange transactions are similar to commercial transactions when the exchange between transacting parties is of approximately equal value. Non-exchange transactions occur when the exchange is not equal, or where there is compulsion on one of the parties.

Below is a list of examples of revenue from exchange and non-exchange transactions:

- Exchange revenue is derived from the;
    - rendering of services;
    - sale of goods; and
    - use by others of entity assets yielding interest, royalties and dividends or similar distributions.

- Non-exchange revenue is revenue derived from;
    - taxes; and
    - transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, fundraising proceeds and goods and services in-kind, and the off-market portion of concessionary loans received.

It is likely that rates revenue could be classified as non-exchange revenue for Council's reporting purposes. In addition, grants received may be classified as non-exchange revenue where applicable.

Separate disclosure of exchange and non-exchange revenue is required in either the financial statements or notes to the financial statements.

Officers have held discussions with Audit New Zealand regarding sector guidance on the classification of revenue. Audit New Zealand has advised that Councils need to come up with their own assessment. However, they are expecting a release of an updated set of model financial statements to guide local authorities when preparing annual reports.

At this stage officers are working on the premise that all categories of rate revenue are non-exchange revenue transactions. We have drafted accounting policies to comply with the new PBE standards.

Summary of impacts

Standard	Impact of new standard	Current status / action required
PBE IPSAS 1 *Presentation of Financial Statements*	Standard requires the presentation of a statement of comprehensive revenue and expense.	Statement in 2014/15 annual plan currently presented as a statement of comprehensive income. Title to be updated in subsequent documents. The format for the 2014/15 annual report will be updated to reflect the new statement requirements. A statement is required to be added that the financial statements have been prepared in accordance with Tier 1 PBE standards.
PBE IPSAS 2 *Cash Flow Statements*	The requirement to prepare a reconciliation of the surplus / deficit from ordinary activities with the net cash flow from operating activities is now incorporated into this standard (previously part of FRS-44 *New Zealand Additional Disclosures*).	No change required. Reconciliation is currently included in the annual report in accordance with FRS-44.
PBE IPSAS 3 *Accounting Policies, Changes in*	There are no substantive differences to NZ IAS 8.	No change required.

Standard	Impact of new standard	Current status / action required
Accounting Estimates and Errors		
PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*	Additional requirements introduced by PBE IPSAS 4 with respect to the treatment of the disposal of a foreign operation.	Not applicable.
PBE IPSAS 5 *Borrowing Costs*	There are no substantive differences to NZ IAS 23.	No change required.
PBE IPSAS 6 *Consolidated and Separate Financial Statements*	The standard applies to the accounting for controlled entities, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present consolidated financial statements.	Not applicable as Council does not have any consolidated subsidiaries.
PBE IPSAS 7 *Investments in Associates*	The scope of PBE IPSAS 7 is narrower than the scope of NZ IAS 28. PBE IPSAS 7 applies to all investments in associates where the investor holds an ownership interest in the form of a shareholding or other formal equity structure. NZIAS 28 applies to all investments in associates regardless of the basis of the significant influence.	Not applicable as Council does not hold any investments in associates.
PBE IPSAS 8 *Interests in Joint Ventures*	The standard applies to the accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place.	Not applicable.

Standard	Impact of new standard	Current status / action required
PBE IPSAS 9 *Revenue from Exchange Transactions*	The definition of revenue in PBE IPSAS 9 encompasses gains. It is therefore broader than the definition of that term in NZ IAS 18 and is equivalent to the term “income” in NZ IFRSs. Exchange revenue is derived from: ▪ The rendering of services; ▪ The sale of goods; and ▪ The use by others of entity assets yielding interest, royalties, and dividends or similar distributions Revenue from exchange transactions is measured at the fair value of the consideration received or receivable.	Separation of receivables arising from non-exchange transactions and receivables from exchange transactions on the face of the balance sheet and either the face of the income statement or in the notes. If it is assumed that all rates are deemed non-exchange, separate debtor control accounts are already in place. Accounting policies require updating to include the methods adopted to determine the stage of completion of transactions involving the rendering of services. Awaiting further sector guidance on treatment.
PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*		Not applicable.
PBE IPSAS 11 *Construction Contracts*	The purpose of this standard is to prescribe the accounting treatment of costs and revenue associated with construction contracts. A construction contract is defined as “a contract, or similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate	Not applicable. Council does not receive any revenue in relation to the construction contracts it undertakes.

Standard	Impact of new standard	Current status / action required
	purpose"	
PBE IPSAS 12 *Inventories*	PBE IPSAS 12 specifies that the cost of inventories acquired through a non-exchange transaction shall be measured at their fair value as at the date of acquisition.	Not applicable.
PBE IPSAS 13 *Leases*	There are no substantive differences to NZ IAS 17 when the Standards are considered in conjunction with the relevant interpretations that form part of NZ IFRSs. The interpretations have been incorporated into PBE IPSAS 13 as integral guidance to ensure that they continue to be applied	No change required.
PBE IPSAS 14 *Events After the Reporting Date*	There are no substantive differences to NZ IAS 10.	No change required.
PBE IPSAS 16 *Investment Property*	Valuations of investment property must be undertaken (or reviewed) by an independent valuer and disclosures about those valuers included in the annual report.	No change required. This practice is already adopted and followed by Council.

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PBE IPSAS 17 *Property, Plant and Equipment*	PBE IPSAS 17 contains integral guidance on the use of depreciated replacement cost in estimating the fair value of property, plant and equipment. This guidance is similar to that in NZ IAS 16 but has been revised to reflect recent guidance from the valuation profession. PBE IPSAS 17 requires that valuations of property, plant and equipment be undertaken (or reviewed) by an independent valuer and requires associated disclosures unless an active market for the asset exists.	No change required.
PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*	There are no substantive differences to NZ IAS 10.	No change required.
PBE IPSAS 20 *Related Party Disclosures*	Disclosure of all transactions between related parties (other than key management personnel remuneration) that occur on normal terms and conditions are exempted. The definition of key management personnel is more detailed and may be interpreted as being wider. Additional disclosures are required on key management personnel.	The volume of disclosures may reduce as only transactions other than those that occur on an arm's length basis will have to be disclosed. We will need to adequately document our assessment of related party transactions considered to be arm's length transactions to satisfy Audit requirements. The current note disclosures for key management personnel will need to be updated to reflect the new disclosure requirements.
PBE IPSAS 21	An annual impairment test in relation to non-cash-	Annual impairment assessment currently

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Impairment of Non Cash-Generating Assets	generating assets is still required. However, a different set of indications of impairment need to be considered: ▪ Cessation of the demand or need for services provided by that asset ▪ Significant long-term changes with an adverse effect on the entity have taken place during the period ▪ Evidence is available of physical damage of an asset ▪ A decision to halt the construction of an asset before completion ▪ Evidence that the service performance of an asset is, or will be, significantly worse than expected	undertaken by asset managers across the organisation. This assessment will be updated to incorporate the additional considerations required by this standard.
PBE IPSAS 22 *Disclosure of Information About the General Government Sector*	This standard is only applicable to Central Government.	Not applicable.
PBE IPSAS 23 *Revenue from Non-Exchange Transactions*	In recognising revenue from non-exchange transactions, an entity shall recognise the asset and revenue only to the extent that a liability is not also recognised. A liability is recognised only to the extent that the present obligations have not been satisfied. Non-exchange transactions are those where an entity receives resources and provides no or	Currently council has two debtor control accounts – one for general debtors and one for rates debtors. On the assumption that all rates are non-exchange, then the separate reporting of these balances is provided for and will require a minor change to the presentation of council's notes to the financial statements. Debtor accruals will be reviewed as part of the

Standard	Impact of new standard	Current status / action required
	nominal consideration directly in return. Non-exchange revenue is revenue derived from: ▪ Taxes; and ▪ Transfers (whether cash or non-cash), including grants, debt forgiveness, fines bequests, gifts, donations, fundraising proceeds and goods and services in-kind, and the off-market portion of concessionary loans received Non-exchange revenue is recognised when it is probable, and can be measured reliably. The key considerations for council are in relation to revenue from: ▪ General rates ▪ Some grants	year end processes to determine if they relate to exchange or non-exchange revenues and classified accordingly. Grant funding received for projects is generally held as revenue in advance and matched to the expenditure it is funding as this expenditure is incurred.
PBE IPSAS 25 *Employee Benefits*	There are no substantive differences that affect Council's treatment or disclosure of employee benefits.	No change required.
PBE IPSAS 26 *Impairment of Cash-Generating Assets*	A cash generating unit is defined as the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use. Council does not classify any of its assets as cash-generating; therefore this standard is not applicable.	No change required.

Standard	Impact of new standard	Current status / action required
PBE IPSAS 27 *Agriculture*	Council's forestry assets are classified as biological assets for the purposes of this standard.	Additional disclosures required by PBE IPSAS 27 will be met: ▪ A description of biological assets that distinguishes between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge / nominal charge ▪ The nature and extent of restrictions in the entity's use or capacity to sell biological assets ▪ A reconciliation of the changes in the carrying amount of biological assets between the beginning and the end of the current period to include: – The fair value gain / loss for bearer and consumable assets – Increases due to assets acquired through non-exchange transactions, and – Decreases due to distributions at no / nominal charge
PBE IPSAS 28 *Financial Instruments: Presentation*	There are no substantive differences to NZ IAS 32.	No change required.
PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*	There are no substantive differences to NZ IAS 39.	No change required.
PBE IPSAS 30	There are no substantive differences to NZ IFRS 7.	No change required.

Standard	Impact of new standard	Current status / action required
Financial Instruments: Disclosure		
PBE IPSAS 31 *Intangible Assets*	Intangible assets acquired in exchange for a non-monetary asset where the transaction lacks commercial substance would be measured at fair value in accordance with PBE IPSAS 23 *Revenue from Non-Exchange Transactions*.	No change required.
PBE IPSAS 32 *Service Concession Arrangements: Grantor*		Not applicable
PBE IFRS 3 *Business Combinations*	There are no substantive differences to NZ IFRS 3.	Not applicable.
PBE IFRS 4 *Insurance Contracts*	PBE IFRS 4 was developed as there is no equivalent guidance within IPSASs. There are no substantive differences to NZ IFRS 4.	No change required.
PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*		Not applicable.
PBE IAS 12 *Income Taxes*	PBE IAS 12 contains the same requirements as NZ IAS 12.	No change required.
PBE IAS 34 *Interim Financial Reporting*		Not applicable. Council does not prepare interim financial statements for publication.
PBE FRS 42 *Prospective Financial Statements*	PBE FRS 42 was developed as there is no equivalent guidance within IPSASs. There are no	No change required.

Standard	Impact of new standard	Current status / action required
	substantive differences between PBE FRS 42 and FRS-42 for Tier 1 entities.	
PBE FRS 43 *Summary Financial Statements*	PBE FRS 43 was developed as there is no equivalent guidance within IPSASs. There are no substantive differences between PBE FRS 43 and FRS-43.	No change required.
PBE FRS 45 *Service Concession Arrangements: Operator*		Not applicable.