

# Related Party Disclosure Policy

## 1. PURPOSE

This policy outlines what is expected of elected members and employees of Council in relation to Australian Accounting Standard AASB 124 Related Party Disclosures (AASB 124).

## 2. SCOPE

Specifically, the policy outlines the disclosure requirements under AASB 124 of Key Management Personnel (KMP), which includes elected members. It also outlines the procedures Council will follow to collect, store, manage and report on related party relationships, transactions and commitments.

Under the *Local Government Act 1993* (Tas) and the *Audit Act 2008* (Tas) all local governments in Tasmania must produce annual financial statements that comply with Australian Accounting Standards.

## 3. SUMMARY OF THE STANDARD

From 1 July 2016, local governments (Councils) must disclose related party relationships, transactions and outstanding balances, including commitments, in their annual financial statements.

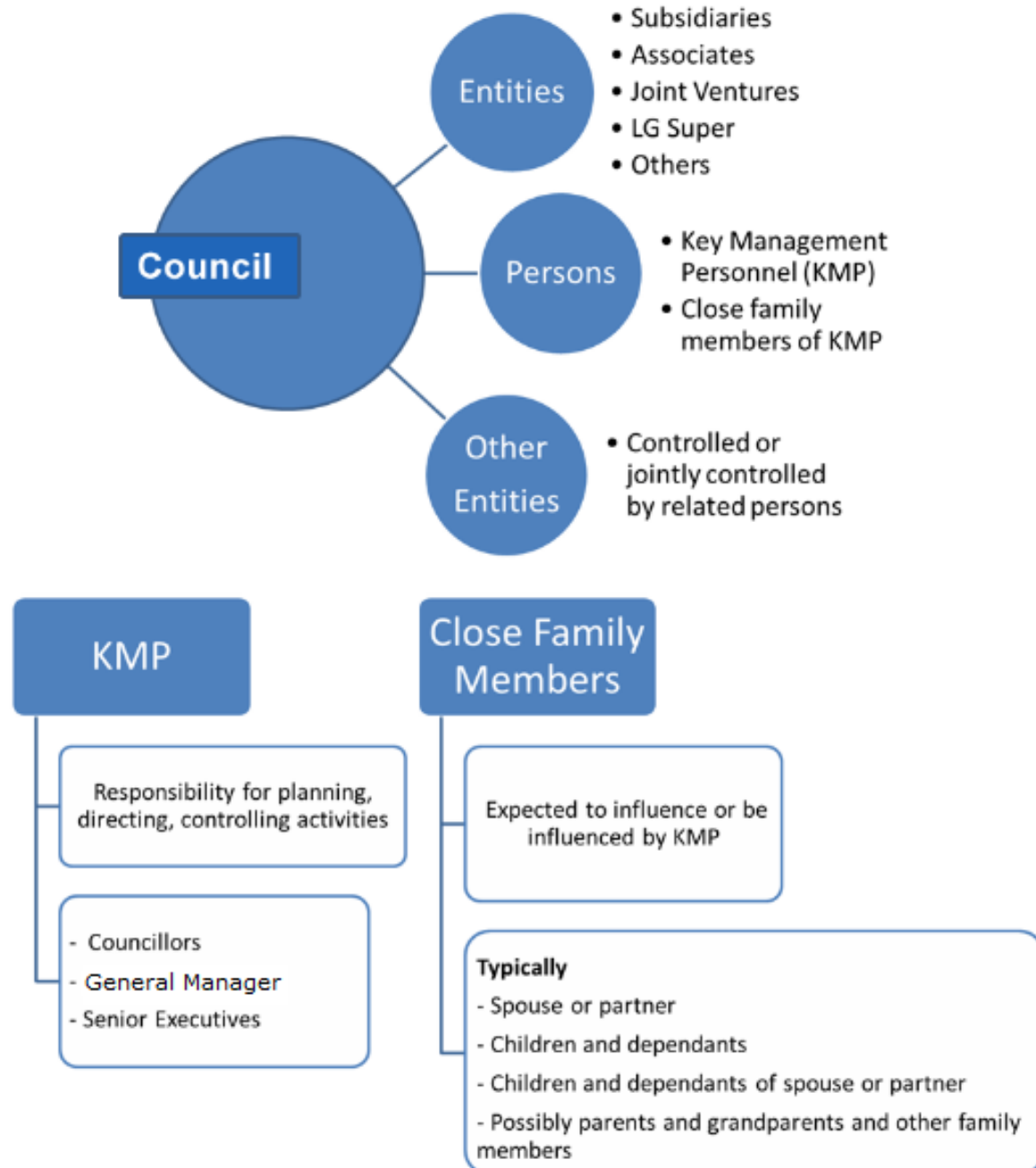
The objective of the Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

Council's related parties are likely to include the Mayor, Councillors, Chief Executive Officer, Executive Leaders and the Director Queen Victoria Museum and Art Gallery, their close family members and any entities that they control or jointly control. Any transactions between Council and these parties, whether monetary or not, may need to be identified and disclosed.

## 4. IDENTIFYING RELATED PARTIES

### 4.1 Common related parties

The following diagram gives an overview of common related parties that a council will have:



4.2. The Chief Executive Officer will establish, review and maintain a list of Key Management Personnel for Council.

Key Management Personnel (KMP) for City of Launceston are:

- All Councillors, including the Mayor and Deputy Mayor
- the Chief Executive Officer, including anyone acting in the role of Chief Executive Officer for more than three months
- all Executive Leaders and the Director Queen Victoria Museum and Art Gallery, including anyone acting in the role of an Executive Leader or the Director Queen Victoria Museum and Art Gallery for more than three months

4.3. Those persons identified as KMP will complete an annual declaration which outlines the entities, if any, that are controlled or jointly controlled by that KMP or their close family members and which will potentially have transactions with Council (Appendix 1).

4.4. For this Policy, Close Family Members includes:

- that person's children and spouse or domestic partner
- children of that person's spouse or domestic partner
- dependents of that person or of that person's spouse or domestic partner; and
- other family members as may be determined by the Chief Executive Officer from time to time, with reference to the circumstances of individual KMPs and/or declarations of pecuniary interests made in satisfaction of relevant sections of the *Local Government Act 1993* (Tas)

**Example for Guidance (Son of CFO employed by Council)**

*Sunny Shire Council has recently employed Paul's son (George) in the Council's parks and garden's area. Paul is Council's Chief Financial Officer but was not involved in hiring George. This process was managed by the Director of Parks and Gardens and included an independent assessment process. Paul did not have any influence in George securing the job.*

*Paul has been identified as a KMP of Council, which makes him a related party.*

*George will also be a related party of Council because he is a close family member of Paul. The recruitment process that was undertaken for George's position is irrelevant when assessing whether George is a related party.*

**Example for Guidance (Cousin of Mayor)**

*The Mayor of Happy Shire Council (Shelley) has lived in the Shire her whole life. In fact, her family has been in the area for over five generations.*

*Shelley's cousin Mavis, owns and operates the local newsagent through a company Happy News Pty Ltd, in which she owns 100% of the shares. Shelley and Mavis have always been close and regularly socialise together.*

*Shelley has been identified as a KMP of Council. From these facts, Mavis is a close family member of Shelley because she would be expected to influence, or be influenced by, that person in her dealings with Council*

*Both Mavis and the company she controls, Happy News Pty Ltd would therefore be related parties of Council. Any transactions that the Council makes with the newsagent would need to be separately identified and may need to be disclosed.*

4.5. It is the responsibility of the Chief Executive Officer to seek a declaration upon a change of KMP.

4.6 KMPs must provide an annual *Related Party Declaration* in the approved form, by 1 July each year.

4.7. It is the responsibility of KMPs to update their declaration should they become aware of a change, error or omission.

#### 4.8. Register of Related Party transactions

##### *4.8.1 Maintain a Register*

The Chief Executive Officer is responsible for maintaining and keeping up to date a register of related party transactions that captures and records the information for each existing or potential related party transaction (including ordinary citizen transactions assessed as being material in nature) during a financial year.

##### *4.8.2 Contents of Register*

The contents of the register of related party transactions must detail for each related party transaction:

- (a) the description of the related party transaction
- (b) the name of the related party
- (c) the nature of the related party's relationship with Council
- (d) whether the notified related party transaction is existing or potential
- (e) a description of the transactional documents that are the subject of the related party transaction.

##### *4.8.3 Disclosure in financial statements*

The Chief Executive Officer is responsible for ensuring that the information is disclosed in Council's Financial Statements to the extent, and in the manner stipulated by AASB 124.

4.9. Council will use the declarations of KMP to establish a list of related parties for the purposes of identifying transactions and reporting under AASB 124.

4.10. Updates will be provided to KMP and Council staff periodically on changes arising from amendments to Australian Accounting Standards, applicable legislation or policy and procedural requirements.

## **5. COUNCIL ENTITIES AND SUBSIDIARIES**

For this policy, entities controlled by Council, jointly controlled by Council or over which Council has significant influence are related parties of Council. Council will need to identify transactions with these entities and may need to make extra disclosure about them in Council's financial statements.

When assessing whether Council has control or joint control over an entity, Council will need to consider AASB 10 Consolidated Financial Statements and AASB 11 Joint Arrangements. AASB 128 Investments in Associates and Joint Ventures details the criteria for determining whether Council has significant influence over an entity.

**Example for Guidance (Company that is a related party of Council)**

*Sunny Regional Council (SRC) owns 90% of the shares in Sunny Regional Development Pty Ltd (the company).*

*SRC has assessed that it has control over the company. The company is therefore a related party of SRC because SRC controls it.*

*SRC produces consolidated financial statements which include both a parent entity column and consolidated entity column. In these statements all individually significant transactions between SRC and the company will need to be disclosed. For other transactions that are collectively, but not individually, significant SRC will need to disclose a qualitative and quantitative indication of their extent.*

*SRC must also disclose the nature of its relationship with the company.*

## **6. ENTITIES CONTROLLED (OR JOINTLY CONTROLLED) BY KMP AND THEIR CLOSE FAMILY MEMBERS**

6.1. KMP will exercise their best judgement in identifying related parties.

6.2. KMP, including elected members, will carefully assess the information and examples following before declaring, or not declaring, an entity over which they, or a close member of the family, have control or joint control.

Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs.

When assessing whether a KMP or close member of their family controls, or jointly controls, an entity, Council will need to refer to AASB 10 Consolidated Financial Statements and AASB 11 Investments in Associates and Joint Ventures.

**Example for Guidance**

*Mayor is the President of a local football club.*

*The Mayor of Sunny Shire Council is the President of League Heroes Inc, the local football club. This club is overseen by a committee which comprises the President and four other committee members. Each member has a single vote when making decisions at meetings. The committee members are not related and do not have agreements to vote with one another. The club has over 100 members that each have a vote in electing the committee members at the club's annual general meeting.*

*From these facts, the Mayor does not control or jointly control the football club so it will not be a related party of Council just because the Mayor is the president of the club.*

**Example for Guidance (Joint control)**

*Fred is the Mayor of Sunny Shire Council and owns 50 per cent of the ordinary shares in Sunny Development Company Pty Ltd (the company). Fred's brother Stan owns the other 50 per cent of ordinary shares. Fred and Stan are the only Directors of the company and have equal voting rights on the board.*

*Fred and Stan have joint control of the company because any decisions require the unanimous consent of them both. Fred will need to include the company on his related party declaration.*

## **7. RELATED PARTY DISCLOSURE BY COUNCIL**

7.1. Each year Council will declare the following related party transactions:

7.1.1 Transactions with Council subsidiaries, by transaction type.

7.1.2 KMP compensation, including:

- short-term employee benefits
- post-employment benefits
- long-term benefits; and
- termination benefits

7.1.3 Transactions with other related parties, including:

- purchases or sales of goods (finished or unfinished)
- purchases or sales of property and other assets
- rendering or receiving of services
- leases
- transfers of research and development
- transfers under licence agreements
- transfers under finance arrangements (including loans and equity contributions in cash or in kind)
- provision of guarantees or collateral
- commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised); and
- settlement of liabilities on behalf of the entity, or by the entity on behalf of that related party.

7.1.4 Transactions of a similar nature will be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of a related party transaction on the financial statements of council, having regard to the following criteria:

- the nature of the related party transaction
- the significance of the transaction (individually or collectively) in terms of size or value, including where the materiality arises because no consideration for the transaction is given or received by Council
- whether the transaction is carried out on non-arm's length terms
- whether the nature of the transaction is outside normal day-to-day business operations.

7.1.5 Outstanding balances in relation to transactions with related parties, including:

- entities controlled by KMPs; and
- bad or doubtful debts in respect of amounts owed by related parties

7.1.6 Non-monetary transactions such as use of facilities, peppercorn rents.

7.2. If a KMP or close associate is named individually in disclosure reports, the KMP will be given a copy of the intended disclosure for review and information purposes. Feedback must be provided within 10 working days.

7.3. Council will not capture Ordinary Citizen Transactions (OCTs) with related parties. Nor will Council disclose non-material transactions.

7.4. For this Policy, examples of OCTs are:

<b>Examples of transactions that are OCTs*</b>
Using a council's public swimming pool after paying the normal fee
Parking fees at rates available to the public
Attending council functions that are open to the public
Fines on normal terms and conditions
Visiting a Council art gallery
Paying rates
Dog registration

<b>Examples of transactions that are NOT OCTs</b>
Purchases or sales of property
Leases
Transfers under finance arrangements (e.g. loans)
Settlement of liabilities
Infrastructure charges or contributions
Purchase of goods and services, regardless of conditions
Employee expenses of close family members of KMP

\* If OCTs were to occur on terms and conditions that are different to those offered to the public, the volume of transactions or other qualitative factors may become material and give rise to an audit issue if not disclosed. Care must be taken in identifying these transactions.

7.5. The Chief Executive Officer will assess the materiality of the related party transactions that have been captured prior to disclosure.

Council does not have to disclose transactions that are not material. In determining materiality, the size and nature of the transaction individually and collectively will be considered, and assessment will be made in consultation with the Senior Leader Finance.

7.6. In making disclosures in the annual financial statements Council will include:

7.6.1 Relationships between a parent and its subsidiaries, irrespective of whether there have been transactions between them.

7.6.2 KMP compensation in total and for each of the following categories:

- short-term employee benefits
- post-employment benefits
- other long-term benefits; and
- termination benefits.

7.6.3 Where related party transactions have occurred:

- the nature of the related party relationship; and

- information about the transactions, outstanding balances and commitments, including terms and conditions.

#### 7.6.4 Separate disclosure in aggregate for each category of related party transactions.

Note: Transactions that are individually significant, either because of their amount or nature, are included in the aggregate disclosure but also need to be disclosed separately.

#### 7.6.5 The types of transactions disclosed such as:

- purchases or sales of goods
- purchases or sales of property and other assets
- rendering or receiving property and other assets or rendering or receiving goods
- rendering or receiving of services
- leases
- guarantees given or received
- commitments
- loans and settlements of liabilities
- expense recognised during the period in respect of bad debts; and
- provision for doubtful debts relating to outstanding balances.

## 8. PRIVACY AND RIGHT TO INFORMATION

Council must comply with the requirements of the *Archives Act 1983* (Tas), *Privacy Act 1988* (Cth), *Personal Information Protection Act 2004* (Tas) and *Right to Information Act 2009* (Tas) in the collection, storage, management, disclosure and reporting of information.

A declaration statement from KMP is incorporated into the *Declaration of Related Party Transactions Form* (Appendix 1) to enable the disclosure and reporting of information in accordance with AASB 124. A Related Party Information Collection Notice will be provided to KMP and included in their Declarations (Appendix 2).

## 9. DISPUTE RESOLUTION

Disputes will be managed in accordance with Council's relevant dispute resolution policy.

## 10. RELATED LEGISLATION AND AUSTRALIAN ACCOUNTING STANDARDS

There is overlap between the requirements of AASB 124 and the interest provisions in the *Local Government Act 1993* (Tas) (LGA). Beyond the provisions of AASB 124 the LGA requires certain disclosures. Council will make these disclosures separately where not adequately covered by AASB 124 disclosures.

Other legislation referred to in this policy includes the *Audit Act 2008* (Tas), *Archives Act 1983* (Tas), *Privacy Act 1988* (Cth), *Personal Information Protection Act 2004* (Tas) (PIP Act) and *Right to Information Act 2009* (Tas).

Other Australian Accounting Standards referred to in this policy include AASB 10 Consolidated Financial Statements; AASB 11 Joint Arrangements; AASB 128 Investments in Associates and Joint Ventures.

## 11. REFERENCES

This Policy uses, with permission, material developed by the Queensland Government (Department of Infrastructure, Local Government and Planning).

It has been developed through a working group comprising representatives from the Tasmanian Audit Office, the Local Government Division of the Department of Premier and Cabinet, Clarence City Council and the Local Government Association of Tasmania.

## 12. DEFINITIONS

Term	Meaning
Arm's length terms	Terms between the parties that are reasonable in the circumstances of the transaction that would result from: <ul style="list-style-type: none"> <li>• neither party bearing the other any special duty or obligation, and</li> <li>• the parties being unrelated and uninfluenced by the other, and</li> <li>• each party having acted in its own interest.</li> </ul>
Chief Executive Officer	General manager appointed pursuant to s61 of the <i>Local Government Act 1993</i> (Tas)
Close Family Member	Family members of Key Management Personnel (KMP) who may be expected to influence, or be influenced by, that person in their dealings with the entity. This includes, but is not limited to, that person's spouse or domestic partner, and the children and dependents of that person or that person's spouse or domestic partner.
Control of an entity	You control an entity if you have: <ul style="list-style-type: none"> <li>• power over the entity</li> <li>• exposure, or rights, to variable returns from involvement with the entity; and</li> <li>• the ability to use your power over the entity to affect the amount of your returns.</li> </ul>
Declaration by KMP	An annual declaration of close family members and entities that the KMP or their close family members control or jointly control, as per Appendix 1, updated during the year as necessary.
Elected members	Councillors
Entities controlled by KMPs	Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs. You control an entity if you have: <ul style="list-style-type: none"> <li>• power over the entity</li> <li>• exposure, or rights, to variable returns from involvement with the entity; and</li> <li>• the ability to use your power over the entity to affect the amount of your returns.</li> </ul>

Entities related to Council	Entities controlled by Council, jointly controlled by Council or over which Council has significant influence are related parties of Council.
Joint control of an entity	To jointly control an entity there must be contractually agreed sharing of control of the entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
Key Management Personnel (KMP)	People who have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. In the council context this includes the Mayor, Councillors, the Chief Executive Officer, Executive Leaders and the Director Queen Victoria Museum and Art Gallery as outlined in the policy.
KMP Compensation	<p>All employee benefits. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:</p> <ul style="list-style-type: none"> <li>• short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees</li> <li>• post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care</li> <li>• other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation</li> <li>• termination benefits; and</li> <li>• share-based payment.</li> </ul>
Materiality	<p>Information is material when, if omitted or misstated, it could influence decisions that users make based on financial information about a specific reporting entity.</p> <p>Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make based on the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.</p>
Ordinary Citizen Transactions (OCTs)	Transactions that an ordinary citizen would undertake with Council are usually not material to related party disclosure requirements. OCTs do not apply if the terms and conditions are different to those offered to the public.
Related Party of Council	People and entities, such as companies, trusts and associations, can be related parties of the Council. Most commonly these will be entities

	related to Council, KMP of Council (including elected members), close family members of KMP and entities that are controlled or jointly controlled by KMP or their close family members. This may include an employee of the Council who is a family member of a KMP.
Related Party Transaction	A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

### 13. REVIEW

This policy will be reviewed no more than four years after the date of approval (version) or more frequently, if dictated by operational demands.

## 14. APPENDIX 1 - DECLARATION OF RELATED PARTY TRANSACTIONS AND CONSENT FORM

### Private and Confidential

#### Related Party Declaration by Key Management Personnel (KMP)

Name of KMP: \_\_\_\_\_ Position of KMP: \_\_\_\_\_

Close Family Member Name	Relationship with KMP	Entities over which the close family member has sole or joint control	Nature of potential transactions with Council or Council entities

Name of Entity over which the KMP has sole or joint control	Relationship with KMP	Nature of potential transactions with Council or Council entities

I declare that the above list includes all my close family members, and the entities controlled, or jointly controlled, by myself or my close family members having had, or will potentially have, transactions with Council. I make this declaration after reading Council's policy which details the meaning of the words "close family members" and "entities controlled, or jointly controlled, by myself or my close family members".

I permit the Chief Executive Officer to access the register of interests of me and persons related to me and to use the information for the purposes specified in Council's Related Party Disclosures Policy.

Declared at *(insert place)* on the *(insert date)*

Signature of KMP: \_\_\_\_\_

## **15. APPENDIX 2 - RELATED PARTY INFORMATION COLLECTION NOTICE**

### **Related party transactions disclosure by Key Management Personnel (KMP)**

From 1 July 2016, Council must disclose related party relationships, transactions and outstanding balances, including commitments, in its annual financial statements, to comply with *Australian Accounting Standard AASB 124 Related Party Disclosures*.

### **Purpose of collection, use and disclosure of related party information**

The reason for disclosure of related party transactions is to ensure that Council's financial statements contain the information necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

Council's related parties are likely to include the Mayor, Councillors, Chief Executive Officer, Executive Leaders, the Director Queen Victoria Museum and Art Gallery, their close family members and any entities that they control or jointly control. Any transactions between Council and these parties, whether monetary or not, may need to be identified and disclosed.

A related party transaction is a transfer of resources, services or obligations between Council and a related party, regardless of whether a price is charged.

A related party transaction must be disclosed in the Council's financial statements if the transaction is material. Information is material when, if omitted or misstated, it could influence decisions that users make based on financial information about a specific reporting entity.

Prior to disclosure, the Chief Executive Officer will assess the materiality of related party transactions that have been captured, and, if deemed material, will disclose in its financial statements the nature of the related party relationship and information about the transaction. Disclosure in the financial statements may be in aggregate form and/or may be made separately, depending on the nature and materiality of the transaction.

### **Related Party Transactions Declaration by KMP**

KMP are the persons who have authority and responsibility for planning, directing and controlling the activities of Council, directly or indirectly and include the Mayor, Councillors, Chief Executive Officer, Executive Leaders and the Director Queen Victoria Museum and Art Gallery. To comply with AASB 124, Council has adopted a policy that requires all KMP to declare any existing or potential related party transactions between Council and any of their related parties during a financial year.

Each KMP must provide an annual *Related Party Declaration* in the approved form, by 1 July each year, and update the Declaration should they become aware of any change, error or omission. KMPs must exercise their best judgement in identifying related parties when declaring, or not declaring, entities over which they, or a close member of their family, have control or joint control.

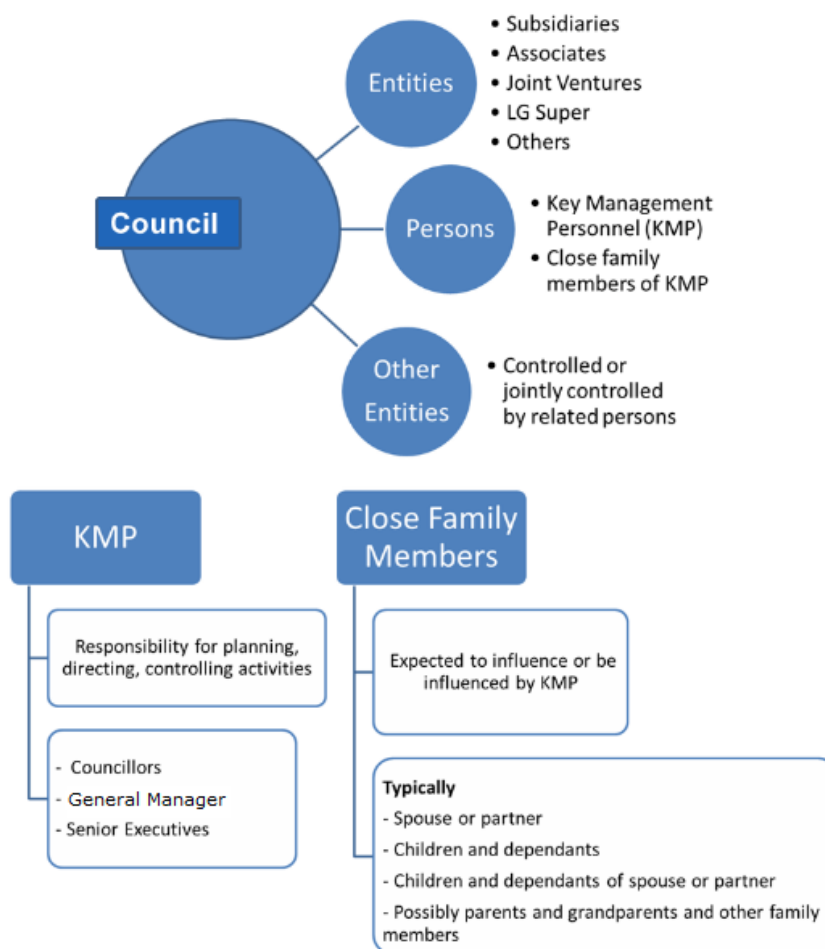
## How will the information captured in the Declaration be used?

The Council will use the declarations of KMPs to establish a list of related parties of Council for the purposes of identifying transactions and reporting under AASB 124. If a KMP or close family member is named individually in disclosure reports, the KMP will be given a copy of the intended disclosure for review and information purposes.

## Who are related parties?

People and entities, such as companies, trusts and associations, can be related parties of the Council.

The following diagram gives an overview of common related parties that a council will have.



For related party transaction disclosures under AASB 124, the related party relationship must be disclosed for both the KMP and their close family members, even if the same related party entity is held jointly or in common by them. This is separate and in addition to Council's register of interests which is required under the *Local Government Act 1993* (Tas).

Under AASB 124, those persons who are prescribed as definitely being close family members of a KMP include:

- that person's children and spouse or domestic partner

- children of that person's spouse or domestic partner
- dependents of that person or that person's spouse or domestic partner; and
- other family members as may be determined by the Chief Executive Officer from time to time, with reference to the circumstances of individual KMPs and/or declarations of pecuniary interests made in satisfaction of relevant sections of the *Local Government Act 1993* (Tas)

### **What is an entity that I, or my close family members, control or jointly control?**

Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs.

You control an entity if you have:

- power over the entity
- exposure, or rights, to variable returns from involvement with the entity; and
- the ability to use your power over the entity to affect the amount of your returns.

You jointly control an entity if there is a contractually agreed sharing of control of the entity. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

In some instances, it may not be easy to determine whether you, or your close family members, control or jointly control an entity. If you are unsure and require further clarification, you should contact the Chief Executive Officer for a confidential discussion.

For more information about Council's disclosure requirements under AASB 124 Related Party Transactions, please refer to the Council's Related Party Disclosure Policy 12-Plx-031.

All information collected by Council is in accordance with Council's Personal Information Protection Policy 17-Plx-005 and is protected by law, including the *Privacy Act 1988* (Cth) and the *Personal Information Act 2004* (Tas).