

Related Party Disclosures Policy

Approved By: **Council**
 Doc Controller: **Executive Manager**
Corporate Governance
 File: 4/14/2

Document Code: **CP-CBS-SG-046**
 Version: **2.0**
 Approved Date: **18 Sep 2018**
 Next Review Date: **18 Sep 2020**

1 PURPOSE

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

2 OBJECTIVE

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

3 SCOPE

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.

4 KEY TERMS

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"> neither party bearing the other any special duty or obligation, and the parties being unrelated and uninfluenced by the other, and each party having acted in its own interest.
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: <ol style="list-style-type: none"> 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.
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.
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"> 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

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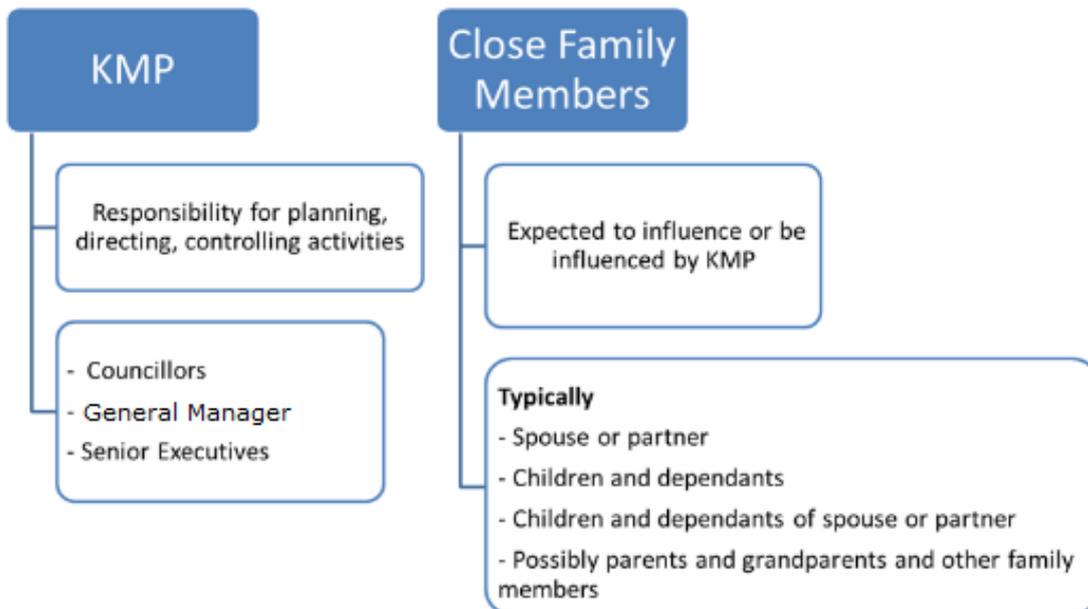
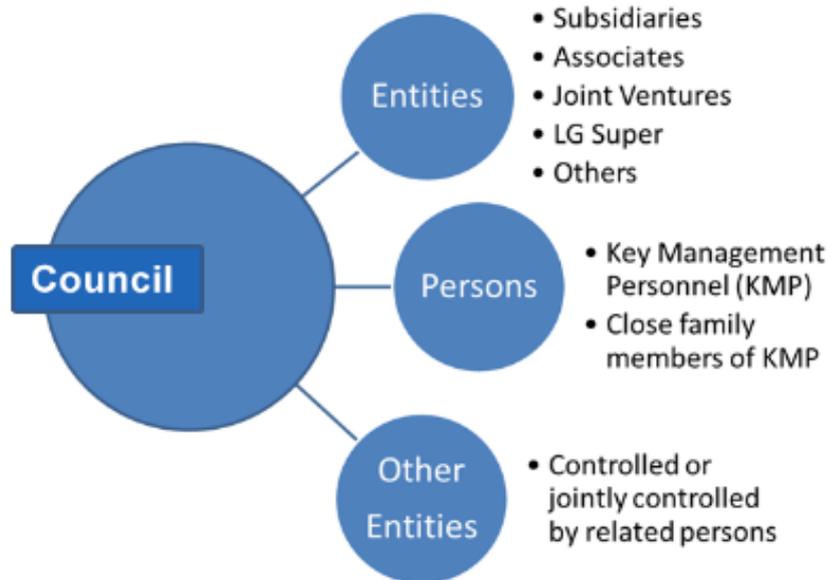
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	your returns.
Entities related to Council	Entities controlled by Council, jointly controlled by Council or over which Council has significant influence are related parties of Council.
Joint control of an entity	To jointly control an entity there must 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)	Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. In the council context this includes the Mayor, all aldermen or councillors, the General Manager and senior council officers as outlined in the policy.
KMP Compensation	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: <ol style="list-style-type: none"> 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; post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care; 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; termination benefits; and share-based payment.
Materiality	Information is material when, if omitted or misstated, it could influence decisions that users make on the basis of financial information about a specific reporting entity. Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of 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.
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 general public.
Related Party of Council	People and entities, such as companies, trusts and associations, can be related parties of 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.
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.

6 POLICY

6.1 Identifying Related Parties

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



The General Manager will establish, review and maintain a list of Key Management Personnel for Council.

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Key Management Personnel (KMP) for Council are:

- the Mayor
- all Aldermen
- the General Manager
- the Executive Management Team

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 are likely to have transactions with Council (Appendix 1).

For the purpose of this Policy, Close Family Members include:

- that person's children and spouse or domestic partner;
- children of that person's spouse or domestic partner; and
- dependents of that person or of that person's spouse or domestic partner.

Council may determine other family members, such as a parent, grandparent, sibling, cousin, etc, who may be expected to influence, or be influenced by, that person in their dealings with Council or a Council entity.

Council may seek to ensure alignment between this declaration and the register of interests required under section 54 of the LGA.

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.

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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 it would appear that 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.

It is the responsibility of General Manager to seek a declaration upon a change of KMP.

All KMPs will be asked to provide their declarations by 1 July each year covering the forthcoming financial year. In addition, an updated declaration for the previous financial year will also be provided.

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

6.2 Register of Related Party Transactions

The Executive Manager Corporate Finance 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.

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 the subject of the related party transaction.

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The Executive Manager Corporate Finance 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.

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.

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.

6.3 Controlled Entities of Council

For the purpose of this policy, entities controlled by Council, jointly controlled by Council or over which Council has significant influence is related parties of Council.

6.4 Entities Controlled (or jointly controlled) by Key Management Personnel or their close family members

KMP will exercise their best judgement in identifying related parties.

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.

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 it would appear that 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.

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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.

6.5 Related Party Disclosures

Each year Council will declare the following related party transactions:

- a) Transactions with Council subsidiaries, by transaction type.
- b) KMP compensation, including:
- c) 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 due to the fact that 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.
- d) Outstanding balances in relation to transactions with related parties, including:
 - Entities controlled by KMPs; and
 - Outstanding rates and charges
 - Bad or doubtful debts in respect of amounts owed by related parties.
- e) Non-monetary transactions such as use of facilities, peppercorn rents.

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 7 days.

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

What are Ordinary Citizen Transactions?

Examples include:-

- Using a council's public swimming pool after paying the normal fee
- Parking fees at rates available to the general public
- Attending council functions that are open to the public
- Fines on normal terms and conditions
- Visiting a council art gallery
- Paying rates and utility charges
- Dog registration

What are not Ordinary Citizen Transactions?

Examples include:-

- Examples of transactions that are NOT OCTs
- Purchases or sales of property
- Leases
- Transfers under finance arrangements (eg. Loans)
- Settlement of liabilities
- Infrastructure charges or contributions
- Purchase of goods and services, regardless of conditions
- Employee expenses of close family members of KMP

Where ordinary citizen transactions occur on terms and conditions that are different to those offered to the general public, the volume of transactions or other qualitative factors of the transactions may be taken into account in consideration of whether or not the transactions will be disclosed.

The Executive Manager Corporate Finance will assess the materiality of the related party transactions that have been captured prior to disclosure.

Transactions deemed immaterial will not be disclosed. 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 General Manager and the Tasmanian Audit Office.

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

- a) Relationships between a parent and its subsidiaries, irrespective of whether there have been transactions between them.
- b) 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.
- c) 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.
- d) Separate disclosure in aggregate for each category of related party transactions. 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.
- e) The types of transactions disclosed such as:
 - purchases or sales of goods;
 - purchases or sales of property and other assets or 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.

6.6 Privacy

In accordance with the Personal Information Protection Act 2004, Council cannot use personal information for purposes other than the reason it is collected.

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).

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7 LEGISLATION

7.1 Legislation and Accounting Standards

Links to other legislation and Australian Accounting Standards

There is overlap between the requirements of AASB 124 and the interest provisions in the **Local Government Act 1993** (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 include the **Audit Act 2008, Archives Act 1983, Privacy Act 1988, Personal Information Protection Act 2004** (PIP Act) and **Right to Information Act 2009**.

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.

8 RELATED DOCUMENTS

Personal Information Protection Policy CP-CBS-SG-008

9 OTHER REFERENCES

Policy Endorsement	
Responsibility:	It is the responsibility of the General Manager to implement and ensure compliance with the Related Party Disclosures Policy. It is the responsibility of the Executive Manager Corporate Finance to review and administer this policy. It is the responsibility of individual aldermen and senior officers to make relevant declarations in accordance with this policy. It is the responsibility of the Governance Unit to maintain this policy within the corporate document framework.
Minute Reference:	Item AO244-18
Council Meeting Date:	TBC18 September 2018
Strategic Plan Reference:	Strategy 7.1.1 Formulate policy that is equitable, inclusive and responsive to current needs, and ensure decision-making is informed and accountable.
Previous Policies Replaced:	This policy replaces the previous policy <i>Related Party Disclosures Policy</i> version 1.0 dated 18 July 2017 (AO170-17).
Date of Commencement:	19 September 2018
Publication of policy:	Members of the public may inspect this policy at the City Offices, or access it on Council's website (www.burnie.net)