

Policy

Related Party Disclosures

Responsible Manager (Title)	Manager Finance & Supply		
Adopted by Council	Date: 22/09/2020	Minute Number: 6c.20.146	
File Reference Number	2151777	Version 4.0	Review Due: Sept 2021
Document(s) this policy Supersedes	V 3.0 – 26/06/2018 – 15.106/18 V 2.0 – 27/06/2017 – 13.041/17		
Community Plan Linkage	5 Leadership		
	5.1 We will have a strong, accountable and representative government		
	5.1.4 Ensures transparent accountable decision making for our community		

1. Purpose

Council is required to disclose Related Party Relationships and Key Management Personnel (KMP) compensation in its Annual Financial Statements.

The purpose of this policy is to define the parameters for Related Party Relationships and the level of disclosure and reporting required for Council to achieve compliance with the Australian Accounting Standard AASB 124 - Related Party Disclosures.

2. Definitions

AASB 124 - means the Australian Accounting Standards Board, Related Party Disclosures Standard.

Close members of the family of a person are:

- a. those family members who may be expected to influence, or be influenced by, that person in their dealings with the Council and include:
 - i. that person's children and spouse or domestic partner;
 - ii. children of that person's spouse or domestic partner; and
 - iii. dependants of that person or that person's spouse or domestic partner.

Entity can include companies, trusts, joint ventures, partnerships, incorporated association or unincorporated group or body and non-profit associations such as sporting clubs.

Key Management Personnel (KMP)

- b. defined in Section 5 of this Policy.

KMP Compensation

- c. means all forms of consideration paid, payable, or provided in exchange for services provided, and may include:
 - i. *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 and subsidised goods or services) for current employees;
 - ii. *Post-employment benefits* such as pensions, other retirement benefits, post employment life insurance and post-employment medical care;
 - iii. *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; and
 - iv. *Termination benefits*.

Material (materiality)

- d. means the assessment of whether the transaction, either individually or in aggregate with other transactions, by omitting it or misstating it could influence decisions that users make on the basis of an entity's financial statements. For the purpose of this policy, it is not considered appropriate to set either a dollar value or a percentage value to determine materiality.

Ordinary Citizen Transaction

- e. means a transaction that an ordinary citizen of the community would undertake in the ordinary course of business with Council.

Possible (Possibly) Close members of the family of a person

- f. are those family members who could be expected to influence, or be influenced by, that person in their dealings with the Council and include:
 - i. that person's brothers and sisters;
 - ii. aunts, uncles, and cousins of that person's spouse or domestic partner;
 - iii. dependants of those persons or that person's spouse or domestic partner as stated in (ii); and
 - iv. that person or that person's spouse or domestic partner, parents and grandparents.

Related Party

- g. defined in Section 6 of this Policy.

Related Party Transaction

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

Regulation

- i. means the Local Government (General) Regulation 2005 (NSW).

Significant (significance)

- j. means likely to influence the decisions that users of the Council's financial statements make having regard to both the extent (value and frequency) of the transactions, and that the transactions have occurred between the Council and related party outside a public service provider / taxpayer relationship.

3. Background/legislative requirements

The Australian Accounting Standards Board (AASB) determined in AASB 124 that from 1 July 2016 related party disclosures will apply to government entities, including local governments (Councils).

AASB 124 provides that Council must disclose the following financial information in its financial statements for each financial year period:

- a. disclosure of any related party relationship;
 - i. must disclose in its Annual Financial Statements its relationship with any related parties or subsidiaries (where applicable), whether or not there have been transactions within the relevant reporting period;
- b. Key Management Personnel (KMP) Compensation Disclosures;
 - i. must disclose in its Annual Financial Statements details for each of the categories of KMP compensation, as stated in the definitions of this Policy, in total.

4. Policy statement

Council is committed to responsible corporate governance, including compliance with laws and regulations governing related party transactions.

Related Party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In those circumstances, there is the possibility of the entity having the ability to affect the financial and operating policies of Council through the presence of control, joint control or significant influence.

A Related Party relationship could influence the normal business operations of Council even if Related Party Transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the Council with other parties. Alternatively, one party may refrain from trading with Council because of the significant influence of another—for example, a local supplier may be instructed by its parent not to engage in supplying goods to Council.

For these reasons, knowledge of Council's transactions and outstanding balances (including commitments and relationships with Related Parties) may affect assessments of Council's operations.

AASB 124 provides that Council must disclose all material and significant Related Party Transactions and outstanding balances; including commitments, in its Annual Financial Statements. Generally, disclosure will only be made where a transaction has occurred between council and a related party of council. In addition the transaction must be material in nature or size, when considered individually or collectively.

When assessing whether such transactions are significant the following factors will be taken into consideration:

- a. significance in terms of size;
- b. was it carried out on non-market terms;
- c. is it outside normal day-to-day council operations;
- d. was it subject to council approval;
- e. did it provide a financial benefit not available to the general public;
- f. was the transaction likely to influence decisions of users of the Annual Financial Statements.

Regard must also be given for transactions that are collectively, but not individually significant.

To enable Council to comply with AASB 124 Council's KMP, as defined in Section 5 of this Policy, are required to declare full details of any Related Parties and Related Party Transactions. Such information will be retained and reported, where necessary, in Council's Annual Financial Statements.

5. Key Management Personnel

AASB 124 defines KMP's as "those persons having authority and responsibility, either directly or indirectly, for planning, directing and controlling the activities of the entity."

For Council purposes KMP include:

- a. the Mayor,
- b. Councillors,
- c. the General Manager,
- d. Directors; and
- e. Staff members or persons engaged under management or outsourcing contracts in a temporary or acting position of General Manager or Director.

When a person is appointed in a temporary or acting position that would normally be considered a KMP role, judgment needs to be exercised in assessing whether that person was a KMP for the duration of their appointment. In some instances the temporary or acting nature of the appointment may mean the person does not have, in substance, authority and responsibility for planning, directing and controlling the activities of the reporting entity.

Council requires temporary appointments to KMP positions or persons acting as KMP in their absence, to be considered as KMP for that duration if the appointment is for three or more months in the financial year. For appointments of less than three months, the assessment is a matter of judgment based on facts, such as that person's participation in key decisions made in that period. For such judgement decisions some of the questions that need to be answered when assessing if a person in an acting role is satisfying the definition of a KMP are:

- f. Did the acting KMP fill a vacant role or did they just act while the position holder was on leave?
- g. Did the acting KMP only complete the operational tasks of the KMP position holder while they were on leave?
- h. Did the acting KMP attend key meetings such as monthly executive management team meetings?
- i. Was the acting KMP involved in operational / strategic planning?

- j. Was the acting KMP involved in determining the budget?
- k. Did the acting KMP approve anything above their 'normal' delegation?
- l. Did the acting KMP just fill-in for someone for a few weeks over Christmas when no key meetings / decisions were made?

6. Related Parties

For the purposes of this policy, related parties of Council are:

- a. entities related to Council;
- b. KMP of Council;
- c. close family members of KMP;
- d. possible close family members of KMP's; and
- e. entities or persons that are controlled or jointly controlled by KMP, or their close family members, or their possible close family members.

Also a person or entity is a related party of Council if any of the following apply:

- f. they are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- g. they are an associate or belong to a joint venture of which Council is part of;
- h. they and Council are joint ventures of the same third party;
- i. they are part of a joint venture of a third party and council is an associate of the third party;
- j. they are a post-employment benefit plan for the benefit of employees of either Council or an entity related to Council;
- k. they are controlled or jointly controlled by close members of the family of a person;
- l. they are identified as a close or possibly close member of the family of a person with significant influence over Council or a close or possibly close member of the family of a person who is a KMP of Council; or
- m. they or any member of a group of which they are a part, provide KMP services to Council.

7. Related Party Transactions

Related Party Transactions are required to be disclosed, regardless of whether a price is charged. Such transactions may include:

- a. purchase or sale of goods (finished or unfinished);
- b. purchase or sale of property and other assets;
- c. rendering or receiving services;
- d. leases;
- e. transfers of research and development;
- f. transfers under licence agreements;
- g. transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- h. provision of guarantees or collateral;

- i. commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised);
- j. quotations and / or tenders;
- k. commitments; and
- l. settlements of liabilities on behalf of Council or by Council on behalf of the related party.

8. Disclosure

AASB 124 provides that Council must disclose all material and significant Related Party Transactions in its Annual financial statements by aggregate or general description and include the following detail:

- a. the nature of the related party relationship; and
- b. relevant information about the transactions including:
 - i. the amount of the transaction;
 - ii. the amount of outstanding balances, including commitments, and
 - iii. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in the settlement; and
 - iv. details of any guarantee given or received;
 - v. provision for doubtful debts related to the amount of outstanding balances; and
 - vi. the expense recognised during the period in respect of bad or doubtful debts due from related parties.

All transactions involving Related Parties will be captured and reviewed to determine materiality or otherwise of such transactions, if the transactions are Ordinary Citizen Transactions, and to determine the significance of each of the transactions.

Generally, transactions with amounts receivable from and payable to KMP or their related parties which:

- i. occur within normal employee, customer or supplier relationships and are at arm's length; and
- ii. are not material or significant;

shall be excluded from detailed disclosures, they will be disclosed in the financial statements by general description. Disclosures that Related Party Transactions were made on terms equivalent to an arm's length transaction can only be made if such terms can be substantiated.

AASB requirements in this regard are available at Section 13.

9. Procedures

The method for identifying the close family members and associated entities of KMP will be by KMP self-assessment. KMP have an ongoing responsibility to advise Council immediately of any Related Party Transactions.

The preferred method of reporting is for KMP to provide details of Related Parties and Related Party Transactions to the Governance Coordinator.

Information provided will be reviewed in accordance with the Council's operational requirements and held on a centralised register held within the Corporate & Governance Directorate.

Should a KMP have any uncertainty as to whether a transaction may constitute a Related Party Transaction they should contact the Governance Coordinator for clarification.

10. Privacy

Information provided by KMP and other related parties shall be held for the purpose of compliance with Council's legal obligation and shall be disclosed where required for compliance or legal reasons only.

11. Review

This policy will be reviewed annually or when any of the following occur:

- a. the related legislation / documents are amended or replaced;
- b. other circumstances as determined from time to time by a resolution of Council; and
- c. as a result of changes to the OLG Local Government Code of Accounting Practice and Financial Reporting.

12. Training and Communication

This policy will be provided to KMP as part of initial inductions. It will also be communicated to KMP annually.

Internal training on supporting this policy shall be scheduled as required.

13. Attachment

AASB 124 Reporting Requirements

Reference	Requirement
AASB124.17	<p>The entity discloses key management personnel compensation in total and for each of the following categories:</p> <ol style="list-style-type: none"> a. short-term employee benefits; b. post-employment benefits; c. other long-term benefits; and d. termination benefits; <p>Key management personnel (KMP) are not named – disclosure on an aggregate basis only.</p> <p>Short-term employee benefits include non-monetary benefits.</p>
AASB124.18	<p>If there have been transactions between related parties, the entity discloses the nature of the relationship with the related party, as well as sufficient information about the transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.</p> <p>Types of Transactions:</p> <ol style="list-style-type: none"> a. purchases or sales of goods (finished or unfinished); b. purchases or sales of property and other assets; c. rendering or receiving of services; d. leases; e. transfers of research and development; f. transfers under licence agreements; g. transfers under finance arrangements (including loans and equity contributions in cash or in kind); h. provision of guarantees or collateral; i. commitments to do something if a particular event occurs or does not occur in the future, including executory contracts¹ (recognised and unrecognised); and j. settlement of liabilities on behalf of the related party. <p>The following information, at a minimum, is disclosed:</p> <ol style="list-style-type: none"> k. the amount of the transactions; l. the amount of outstanding balances, including commitments, and terms and conditions (i.e. secured or unsecured) and the nature of consideration to be provided in settlement; and details of guarantees given or received; m. provisions for doubtful debts related to the amount of outstanding balances; and n. the expense recognised during the period relating to bad or doubtful debts due from related parties.

AASB124.19	<p>The entity separately discloses all the information required by Paragraph 18 at the following levels:</p> <ul style="list-style-type: none"> a. subsidiaries; b. associates; c. joint ventures in which the entity is a joint venturer; d. key management personnel of the entity or its parent; and e. other related parties.
AASB124.24	<p>The entity discloses items of a similar nature in aggregate, except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.</p>