



Our Ref: 34-01



The Chairman
Australian Accounting Standards Board
PO Box 204
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Dear Sir

ED 156 - PROPOSALS ARISING FROM THE SHORT-TERM REVIEW OF REQUIREMENTS IN AAS 27, AAS 29 AND AAS 31

The Department offers its response to the Board on ED 156- Proposals Arising from the Short-term Review of Requirements in AAS 27, AAS 29 and AAS 31 in the attached submission.

The Department has its own finance reporting working party made up of local government finance professionals, accountants and auditors that have contributed to this submission.

The Department wishes to thank the Board for the presentation provided by Mr Robert Keys to the working party and members of the Local Government Managers Australia in June 2007 on this topic.

A copy of the submission will be emailed to the Board.

Yours sincerely

Jenni Law
MANAGER LOCAL GOVERNMENT SUPPORT & DEVELOPMENT

30 August 2007

Western Australian Department of Local Government and Regional Development

Submission to the AASB on ED 156 “Proposal Arising from the Short-term Review of Requirements in AAS27, AAS 29 and AAS 31”

The Department of Local Government and Regional Development in Western Australia offers the following response to the AASB’s request for comment to specific matters set out in relation to ED 156. The comments made on ED 156 are in respect to AAS 27 only.

1. Proposed New Topic-based Standards

(a) AASB 10XX *Administered Items*

Applicable to government departments, and not to local government.

(b) AASB 10XY *Land Under Roads – Transitional Requirements*

Addressed by AASB 116 Property Plant and Equipment once the transitional period lapses. The recognition of land under roads is deferred until 30 June 2008.

Land under roads will be recognised as an asset of a local government if the land has a future economic benefit and the cost of the item can be measured reliably (AASB 116 paragraph 7).

The Department concurs that Land under Roads has an economic benefit and if the cost of the land can be reliably measured then local governments should recognise land under roads as an asset as it meets the principles of the Australian Accounting Standards. However the principles should differentiate between freehold land and Crown land vested in local governments.

In Western Australia a large proportion of land under roads is Crown Land belonging to the State Government vested in local government for the construction of roads. Local governments control the road constructed on the land and recognise the road as a non-current asset. Whether local governments have ultimate control of the land under roads is debateable.

There is an economic benefit in the use of the land on which the road is constructed and local governments control the asset constructed on the land. The economic benefit on the use of this land is considered a shared economic benefit that benefits the State, local governments and users of the road constructed on this land.

Recognising Crown Land may result in the asset being counted twice, once by local governments and by the State Government.

There should be some guidance on the appropriate treatment of Crown Land provided by the AASB.

(c) AASB 10XZ *Disaggregated Disclosures*

Accept the proposal to prepare a separate standard for the disclosure of financial information by nature and type or functions and activity. This disaggregated information is useful for users of financial information and in preparation of comparative information.

2. Proposed Amendments to Existing Standards

(a) AASB 3 *Business Combinations*

Accept the proposed amendment to include local governments in the definition of reporting entity.

(b) AASB 116 *Property, Plant and Equipment*

Accept amendment to include a new "Aus paragraph" relation to infrastructure, cultural, community and heritage assets. The amendment will apply to local government and guidance to accompany AASB 116 that addresses reliable measurement, revaluation and depreciation of heritage assets.

(c) AASB 127 *Consolidated and Separate Financial Statements*

No impact on existing AAS 27. It affects AAS 31.

(d) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*

Standard will be amended to explicitly exclude obligations arising from local government existing public policies, budget policies election promises or statements of intent.

(e) AASB 1004 *Contributions*

Proposal is to incorporate material that presently exists in AAS 27 relating to contributions. This means that non-reciprocal voluntary transfers such as grants and donations and involuntary transfers such as rates and fines will be recognised as income.

One matter that needs to be considered as part of the review of AASB 1004 is the determination as to when grants and contributions give rise to a liability. This for instance arises when the conditions of grants have not been met and the grant or contribution may need to be refunded. It is misleading to assume a local government has control of the grant until such time as it discharges the obligations attached to grant and contributions.

3. Requirements/Guidance Adequately Addressed in other Standards

(a) Cash flows from government-controlled financial institutions

Not applicable to local government.

(b) Restricted assets

Important to flag restricted assets for the preparation of prescribed financial ratios and in preparation of the following years annual budget. Local governments may lose track of their committed funds unless they are flagged.

(c) Restructure of local governments

Agree with the principle of applying the purchase method for combinations of local governments in accordance with AASB 3 Business Combinations.

4. Requirements/Guidance that would no longer be addressed in Standards

(a) Net cost of services format of the income statement

Applies to AAS 29 and not to local government.

(b) Performance indicators

By not retaining guidance on performance indicators, then legislative amendment may be required to introduce the concept of relevance and reliability. The AASB intends reviewing the requirements in relation to indicators in due course. When this occurs performance measures for not for profit type entities need to be developed.

Local governments in Western Australia use their own sets of indicators based on modified commercial indicators. There is no uniformity across all states and this is essential if a uniform set of measures is to be implemented.

5. General Issues

(a) Encouragement in Standards

Agree with the comment to withdraw the encouragement statements

(b) Definition of government departments

Not applicable to local government.

(c) Regulatory or other issues

Comparing financial information between one year and the next distorts the operating results when in one year a local government receives income in advance and expends the grant the next year. This distorts the financial performance of local governments from year to year. It is recognised that the matching concept no longer applies as an accounting principle however it is being used in AASB 120 "Accounting for Government Grants and Disclosure of Government Assistance". The AASB acknowledges that this is a poor standard that contravened the principle based standards and that it does not apply to local government. However it does address some of the key issues not recognised in the contribution standard in that it recognises a liability for income received in advance.

AASB 120 (12) states that "Government grants shall be recognised as income over the periods necessary to match them with the related cost which they are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interest."

(d) Best interests of the Australian economy

Reserves on Crown Land

There should be an "Aus paragraph" dealing with Reserves on Crown Land if local governments are required to recognise land under roads constructed on Crown Land. The treatment and valuation of reserves on Crown Land should be addressed by AASB 116 Property Plant and Equipment.

There needs to be a consistent approach to the recognition of all Crown Land irrespective of the uses of this land.

GAAP/GFS Harmonisation project

With local governments not being part of the GAAP/GFS Harmonisation project, there remains the issue in providing meaningful information to other government agencies such as ABS. These agencies require information in a prescribed form that is often incompatible with the financial information prepared by local governments. If local governments are not part of the GAAP Harmonisation project then information provided to other government agencies requires retranslation and places an additional burden on local governments.

6. Other Matters

Valuation of Land

The Board should provide guidance in determining the value of land under roads. For example resumed land can be measured reliably at cost or fair value at the time of resumption compared with land measured at historical cost or land contributed by developers.

Control of Crown Land

The notion or principle of control needs to be examined in the context of Crown Land. This may need clarification as an “Aus paragraph” as part the definitions used in Accounting Standard AASB 116 “Property Plant and Equipment”.

Guiding Principles for a National Framework for Assessing Financial Sustainability

In determining the financial sustainability of local government or industries in general there should be some key principles reflected in an Australian Accounting Standard. The May 2006 Local Government Ministers Roundtable on Financial Sustainability of Councils proposed the development of nationally consistent approaches to:

- Criteria for assessing financial sustainability of local councils;
- Asset planning and management; and
- Financial planning and reporting.

The elements of a national framework proposed the use of indicators that measure the factors which define financial sustainability.