

OPERATIONAL POLICY



RELATED PARTY DISCLOSURE POLICY

Version-control information:

Adopted by ELT: 28 May 2021

Next review due: April 2028

Previous version(s): 22 February 2017

Policy register reference: 268

Responsible service: Finance

Contact position: Manager Finance

Policy statement

Blue Mountains City Council will identify, collect, maintain and report on certain transactions with related parties as required by Accounting Standard AASB 124 *Related Party Disclosures*.

Scope

This policy shall be applied by Council and its auditors in:

- a) identifying related party relationships and transactions;
- b) identifying outstanding balances between Council and its related parties;
- c) identifying the circumstances in which disclosure of the items in paragraphs (a) and (b) are required; and
- d) determining the disclosures to be made about the items in paragraphs (a) and (b).

This policy applies to Councillors, the Chief Executive Officer, directors and other employees of Blue Mountains City Council.

Roles and responsibilities

Position	Responsibilities
Manager Finance	<ul style="list-style-type: none">• Identify a suitable methodology and procedures for identifying and reporting on related party transactions.• Identify Council's KMP and request that each member of the KMP complete a KMP Declaration Form with details of directorships and transactions between close family members and Council.• Maintain a KMP Register.• Report on any disclosed related party transactions to the Manager Governance & Civic Services.
key management personnel (KMP)	<ul style="list-style-type: none">• Proactively identify and report any changes to their related parties as they occur.• Ongoing reporting and management of conflicts of interest.
Operational Finance Program Leader; external auditor	<ul style="list-style-type: none">• Assess and advise on any transactions referred to them by the Manager Finance.

Position	Responsibilities
Councillors and staff	<ul style="list-style-type: none"> Notify the Manager Finance if they believe a transaction may constitute a related party transaction.

Definitions

Term	Definition
Close family member	<p>Close family members are those who may be expected to influence or be influenced by that person in their dealings with the entity and include:</p> <ul style="list-style-type: none"> (a) the person's children and spouse or domestic partner (b) children of that person's spouse or domestic partner (c) dependents of that person or that person's spouse or domestic partner. <p>Other family members, such as cousins, nieces/nephews, parents, grandparents and aunts/uncles may also be considered to be a close family member for the purpose of this policy if that person could be expected to influence or be influenced by the person.</p>
Compensation	<p>Compensation includes all employee benefits (as defined in AASB 119 <i>Employee Benefits</i>) including those to which AASB 2 <i>Share-based Payment</i> applies. 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"> (a) 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 (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care (c) 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 (d) termination benefits (e) share-based payment.

Term	Definition
	Although the term 'compensation' is used in AASB 124 rather than the term 'remuneration', both words refer to the same concept and all references in the Corporations Act 2001 to the remuneration of directors and executives is taken as referring to compensation as defined and explained in AASB 124.
Control	Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
ELT	Council's Executive Leadership Team
key management personnel (KMP)	<p>Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.</p> <p>For the purposes of this policy, KMP include:</p> <ul style="list-style-type: none"> a) the Mayor; b) Councillors; and c) the Chief Executive Officer, directors, and staff acting in an ELT role for more than 20 days per financial year.
Related party transaction	A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.
Related party	<p>A person or entity that is related to the entity that is preparing its financial statements ('reporting entity').</p> <ul style="list-style-type: none"> a) A person or a close member of that person's family is related to a reporting entity if that person: <ul style="list-style-type: none"> i. has control or joint control over the reporting entity ii. has significant influence over the reporting entity iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. b) An entity is related to a reporting entity if any of the following conditions applies: <ul style="list-style-type: none"> i. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others) ii. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member) iii. both entities are joint ventures of the same third party iv. one entity is a joint venture of a third entity and the other entity is an associate of the third entity v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity

Term	Definition
	<ul style="list-style-type: none"> vi. the entity is controlled or jointly controlled by a person identified in (a) vii. a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
Significant influence	Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

Policy details and information

1. Purpose

The objective of this policy is to ensure that Council's financial statements comply with the disclosure requirements of Australian Accounting Standard AASB 124 *Related Party Disclosures*.

This policy is to provide guidance for identifying the related parties of Council, capturing transactions and balances with related parties and how to disclose such transactions and balances in the Council's financial statements.

2. Background

Related party relationships are a normal feature of commerce and business. A related party relationship could have an effect on the financial position of Council and/or entities related to Council. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer.

In addition, the financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties.

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 requires Council to disclose in its annual financial statements all material and significant related party transactions and outstanding balances, including commitments. Generally, disclosure will only be made where a transaction has occurred between Council and a related party of Council.

To enable the requirements of AASB 124 to be met, this policy provides direction in:

1. identifying related parties;
2. capturing related party transactions; and
3. determining what information is required to be disclosed.

3. Identifying related parties

AASB 124 contains a detailed definition of related parties for the purposes of this policy and compliance with the Accounting Standard. Although this policy provides direction in the context of Council, the definition contained in AASB 124 is more exhaustive and must also be followed.

Related parties of Council include:

- key management personnel (KMP) of Council; and
- close family members of KMP.

4. Related party declaration and register of KMP

Based on the definition of KMP, the Manager Finance will identify Council's KMP and request that each member of the KMP complete a KMP Declaration Form with details of directorships and transactions between close family members and Council. The form will include the name of the KMP and their position title.

Council will maintain a KMP register containing the information obtained from the KMP Declaration Forms for the purpose of complying with this policy and the requirements of AASB 124.

A review of related parties will be undertaken annually or more often if required. KMP have a responsibility to proactively identify and report any changes to their related parties as they occur. KMP are also continually responsible for the normal reporting and management of conflicts of interest. Filing a related party disclosure under this policy is not a replacement for those activities.

5. Identifying and disclosing related party transactions and balances

5.1 Types of transactions included

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

The types of transactions that need to be captured for analysis and disclosure include:

- grants and subsidy payments made to associated entities of Council;
- non-monetary transactions between Council and associated entities of Council;
- other goods and services provided by Council to associated entities of Council;
- compensation paid to KMP;
- fees and charges paid by related parties;
- infrastructure contributions and application fees from related parties;
- purchase of materials and services from related parties; and/or
- employee expenses for close family members of KMP.

5.2 Capture of related party transactions

The Manager Finance shall identify a suitable methodology and procedures for identifying and reporting on related party transactions.

Identification and reporting methods shall consider:

The document on Council's Records Management System is the controlled version. Please check that you have the current version before using a printed copy. HPERM: 21/130958

- transactions occurring via Council's accounting and electronic records management systems;
- other transactions not passing through Council's electronic accounting/management systems; and
- the identification of the associated terms and conditions of the related party transactions.

In addition, if any elected member or employee believes a transaction may constitute a related party transaction, they must notify the Manager Finance. The Manager Finance will refer the transaction to the Operational Finance Program Leader and external auditor for advice and assessment against AASB 124 prior to making a determination on the requirement to report the related party transaction.

5.3 Materiality

Generally, public disclosure by Council in the financial statements will only be made where transactions are material in nature or size. When assessing materiality, Council will consider both the size and nature of the transaction, individually and collectively.

Under the guidance of AASB 124, Council has determined that transactions with its related parties that are of the same nature, terms and conditions as those offered to the general public will not be reported. These transactions include:

- use of Council facilities, equipment and services in accordance with Council's fees, charges and policies;
- payment of standard annual rates and charges;
- dog registration fees;
- attendance at Council functions and activities that are open to the public;
- payment of fines and other penalties on normal terms and conditions; and
- transactions occurring while delivering Council's public service objectives.

However, if the above transactions occur on terms and conditions that are different from those offered to the general public, the transaction may become material and subsequently disclosed.

5.4 Reporting to the Manager Governance & Civic Services

A report on any disclosed related party transactions will be provided to the Manager Governance & Civic Services at least annually for compliance oversight. Reports of transactions which are of substantial materiality will be provided to the Manager Governance & Civic Services as they arise. In which case, conflict of interest management processes may be applied.

6. Privacy

Collection and storage of personal information is governed by Council's *Privacy Management Plan*, the *Privacy and Personal Information Protection Act 1998* (NSW) and the *Government Information (Public Access) Act 2009* (NSW). Information provided by Council's KMP shall be held for the purpose of compliance with Council's legal obligations and shall be disclosed where required for compliance or legal reasons only.

KMP will be notified if it is determined that a related party transaction requires disclosure in the financial statements.

Related documents

This document should be read in conjunction with:

Legislation

- Local Government Act 1993 (NSW)
- Local Government (General) Regulation 2005 (NSW)
- Privacy and Personal Information Protection Act 1998 (NSW)

Other documentation

- AASB 124 Related Party Disclosures
- Blue Mountains City Council's Privacy Management Plan