



## RELATED PARTY DISCLOSURE POLICY

Approved By: Council  
Doc Controller: General Manager  
File: 126, 756

Document Code: DVC-POL-037  
Version: 1  
Approved Date: 19/10/2017  
Next Review Date: 19/10/2019

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### 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).

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* and the *Audit Act 2008* all local governments in Tasmania must produce annual financial statements that comply with Australian Accounting Standards.

### 2. SCOPE

This policy applies to all persons having authority and responsibility for planning, directing and controlling the activities of Council or Council entities - directly or indirectly. This includes Councillors, the General Manager and Senior Executives of Council.

### 3. LEGISLATION

*Audit Act 2008*

*Archives Act 1983*

*Local Government Act 1993*

*Personal Information Protection Act 2004*

*Privacy Act 1988*

*Right to Information Act 2009*

Australian Accounting Standard AASB 124 *Related Party Disclosures* and the *Australian Implementation Guidance for Not-for-Profit Public Sector Entities*

AASB 10 *Consolidated Financial Statements*

AASB 11 *Joint Arrangements*

AASB 128 *Investments in Associates and Joint Ventures*

### 4. POLICY

#### 1. IDENTIFYING RELATED PARTIES

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

Key Management Personnel (KMP) for council are:

- the Mayor
- all councillors



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- the General Manager
- other senior executives

1.2 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.

1.3. For the purpose of this Policy, Close Family Members includes:-

- that person's children, parents, grandparents, siblings 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.

Other parties may be assessed from time to time as being related parties due to changes to Council's structure or in accordance with legislative or accounting standard changes.

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

*The Mayor of Happy Council (Shelley) has lived in the municipality 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.*

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

1.5. 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.

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



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### 2. REGISTER OF RELATED PARTY TRANSACTIONS

#### 2.1. Maintain a Register

The General Manager 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.

#### 2.2. 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 the subject of the related party transaction.

The General Manager 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.

### 3. COUNCIL ENTITIES AND SUBSIDIARIES

For the purpose of 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.



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### **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.*

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

- 4.1 KMP will exercise their best judgement in identifying related parties.
- 4.2 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.
- 4.3 Entities include companies, trusts, joint ventures, partnerships and non-profit associations such as sporting clubs.
- 4.4 When assessing whether or not 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 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 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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### 5. RELATED PARTY DISCLOSURES BY COUNCIL

5.1 In accordance with AASB 124, Councils are required to disclose in their general purpose financial statements information pertaining to related party transactions including:-

5.1.1 Transactions with Council subsidiaries, by transaction type.

5.1.2 KMP compensation, including:-

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

5.1.3. 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.

5.1.4. 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 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.

5.1.5. Outstanding balances in relation to transactions with related parties, including:-

- Entities controlled by KMPs; and



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- Bad or doubtful debts in respect of amounts owed by related parties.

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

5.1.7. Other transactions as required by legislation of AASB124.

5.2. 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 21 days.

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

5.4. For the purpose of this Policy, example of OCTs are:-

- 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
- Employee expenses of close family members of KMP

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

The list of OCTs will be reviewed periodically with updates provided to KMP. OCTs are generally not material transactions because of their nature, and therefore Council may wish to identify them upfront and exclude them from being recorded as a related party transaction (step 5.3).

Note, however, if the OCTs were to 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 become material and give rise to an audit issue if not disclosed. Care needs to be taken in identifying these types of transactions.

5.5. The General Manager will assess the materiality of the related party transactions that have been captured prior to disclosure.



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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 Audit Office.

### 6. PRIVACY AND RIGHT TO INFORMATION

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

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 (Schedule 1.2) 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 (Schedule 1.3).

### 5. RELATED DOCUMENTS

Schedule 1.1 Glossary

Schedule 1.2 Declaration of Related Party Transactions form

Schedule 1.3 Related Party Information Collection Notice



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### Schedule 1.1 - Glossary

Term	Meaning
Arm's length terms	Terms between the parties that are reasonable in the circumstances of the transaction that would result from: <ol 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> </ol>
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"> <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> </ol>
Council	Derwent Valley Council
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 Schedule 1.2, 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: <ol 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> </ol>
Entities related to Council	Entities controlled by Council, jointly controlled by Council or over which Council has significant influence are related parties of Council.





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Term	Meaning
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 Councillors, the General Manager and senior executive officers 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>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;</li> <li>b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;</li> <li>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;</li> <li>d) termination benefits; and</li> <li>e) share-based payment.</li> </ul>



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Term	Meaning
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.
Senior Executives	An employee of Council: <ol style="list-style-type: none"> <li>a) who reports director to the General Manager; and</li> <li>b) whose position would be considered to be a senior position in the Council's corporate structure.</li> </ol>
Significant Influence	The power to participate in the financial and operating policy decisions of the investee but is not in control or joint control of the policy decision.



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## Schedule 1.2 Declaration of Related Party Transaction Form

### Declaration of Related Party Transaction and Consent Form



**Private & Confidential**

#### RELATED PARTY DECLARATION BY KEY MANAGEMENT PERSONNEL

Name of Key Management Person: \_\_\_\_\_

Position of Key Management Person: \_\_\_\_\_

Close Family members name	Relationship with Key Management person	Entities over which the close family member has sole or joint control	Nature of likelihood with Council or Council entities

Name of entity which the KMP has control	Relationship with KMP	Nature of likely transactions with Council or Council entities

I (*insert full name*) \_\_\_\_\_, (*insert position*) \_\_\_\_\_ 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 likely to 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 acknowledge that the General Manager has access to the register of interests of me and persons related to me and will 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: \_\_\_\_\_

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

In accordance with Council's *Privacy Policy*, your information, and the information of others, is protected by law, including the *Privacy Act 1988* and the *Personal Information Act 2004*.

THIS DOCUMENT BECOMES UNCONTROLLED ONCE PRINTED



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### **Schedule 1.3 Related Party Information Collection Notice Collection Notice**

#### **Related party transactions disclosure by Key Management Personnel**

From 1 July 2016, Council must disclose related party relationships, transactions and outstanding balances, including commitments, in its annual financial statements, in order 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, General Manager, senior executives, 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 Council's financial statements if the transaction is material. 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.

Prior to disclosure, the General Manager 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 Key Management Personnel**

Key management personnel (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, General Manager and senior executives. In order 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.



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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?

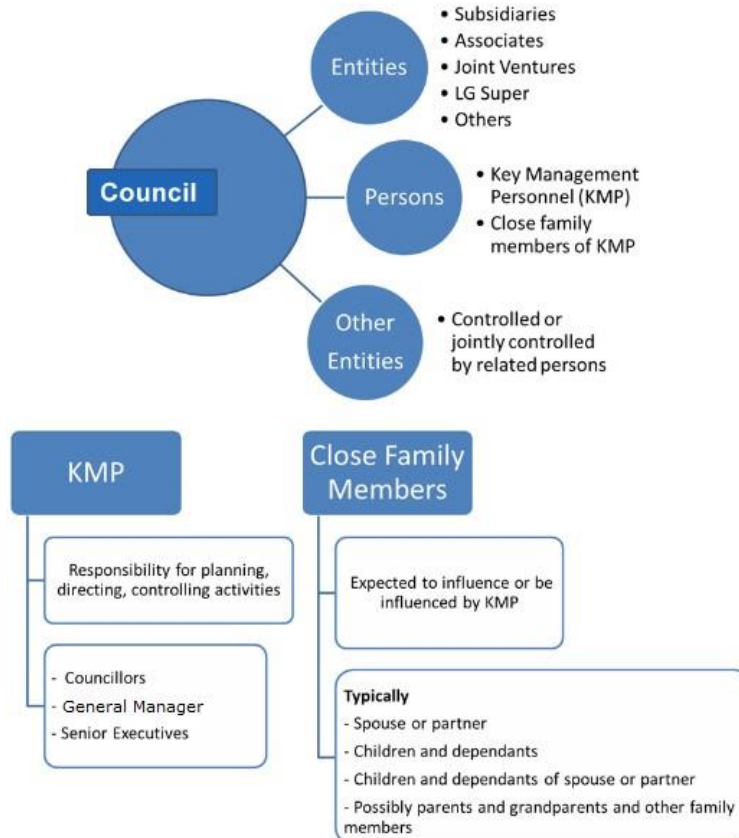
Council will use the declarations of KMPs to establish a list of related parties of Council for the purposes of identifying transactions and reporting under AASB 124. If a KMP or close family member is named individually in disclosure reports, the KMP will be given a copy of the intended disclosure for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

## Who are related parties?

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

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

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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*.

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; and
- dependents of that person or 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.

### **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:-

- a) power over the entity;
- b) exposure, or rights, to variable returns from involvement with the entity; and
- c) 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 or not you, or your close family members, control or jointly control an entity. If you are unsure and require further clarification, you should contact the General Manager 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 Disclosures Policy, which can be found at [www.derwentvalley.tas.gov.au](http://www.derwentvalley.tas.gov.au).*

*All information collected by Council is in accordance with Council's Privacy Policy and is protected by law, including the Personal Information Protection Act 2004. Council's Privacy Policy can be found at [www.derwentvalley.tas.gov.au](http://www.derwentvalley.tas.gov.au).*