

Australian Accounting Standards Board
Level 7
600 Bourke Street
MELBOURNE, VIC, 3000

Friday 14th August 2015

**ED 260 - INCOME OF NOT-FOR-PROFIT ENTITIES
SUBMISSION FROM NSW LOCAL GOVERNMENT FINANCE PROFESSIONALS NETWORK**

This submission is being made on behalf of the NSW Local Government Financial Professionals Network (LGFP). The network provides a forum for financial practitioners to discuss the various financial and accounting issues that have an impact on the NSW Local Government industry.

The LGFP support the proposal to replace the reciprocal/non-reciprocal transfer distinction in AASB 1004 with income recognition requirements based on whether a NFP entity needs to satisfy a performance obligation.

The LGFP support the proposal to qualify as a performance obligation, a NFP entity's promise to transfer a good or service to a counterparty in a contract must be 'sufficiently specific' to be able to determine when the obligation is satisfied.

However, a closely related issue to this exposure draft including the above proposals, and an issue that heavily influences the faithful depiction of a council's financial performance, is the accounting treatment of the federally funded Financial Assistance Grants.

The Financial Assistance Grants ('the Grants') are general purpose grants that are paid to local councils under the provisions of the Commonwealth *Local Government (Financial Assistance) Act 1995*. Annually, through its Budget process, the Federal Government appropriates an amount payable to local councils through these Grants.

Although there are two separately identified grant components, the total funds are paid to councils as unconditional grants. The local council has complete autonomy in deciding how the funds should be spent.

At times the Federal Government has released these Grant funds to councils as "advance payments" to mitigate any cash flow issues that struggling councils may be encountering. In recent years these advance payments have been twenty-five percent (25%) but in some years the advance payment could be as much as fifty percent (50%) of the following years allocation.

Not only does this cause havoc on the annual budgets of councils but the current, and proposed, accounting standards also require councils to recognise that income when those advance payments are received.

This recognition of the advance payments as income results in a false depiction of a councils' financial performance for that particular financial year. The total amount of advance payments paid to NSW councils in one particular year totalled forty-eight million dollars (\$48 million). ***An alternative approach could be to recognise the income of any receipt of the Financial Assistance Grants in the financial year for which they were appropriated by the Federal Government.*** This would potentially require an inclusion in AASB 15 to deal specifically with appropriations made under the *Local Government (Financial Assistance) Act 1995*.

Thank you for your consideration of this submission.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'm. woods', written in a cursive style.

Mitchel Woods
Chairman
NSW Local Government Finance Professionals Network

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