FINANCE POLICIES
Significant Accounting Policies

Policy Number:	F3
Relevant Delegation:	Not Applicable
Adoption Details:	28 January 2016
Last Review Details:	25 November 2019

POLICY OBJECTIVE:

To provide a financial framework, in addition to Accounting Standards and other statutory requirements, to ensure the Shire's accounting data is accurate, reliable and compliant.

POLICY SCOPE:

This Policy covers the Shire's accounting data and financial reporting (including the Annual Budget, Budget Reviews and Annual/Monthly Financial Statements).

POLICY STATEMENT:

INTRODUCTION

The Local Government Act (the Act) 'Division 4 – General Financial Provisions' outlines that the Chief Executive Officer (CEO) has a duty to ensure that there are proper accounts and records of the transactions and affairs of the local government. The Local Government (Financial Management) Regulations (the Regulations) state that the CEO must ensure that efficient financial systems and procedures are established for the local authority. This Policy is designed to ensure the Shire operates under appropriate financial governance and meets all regulatory obligations.

PRINCIPLES

(a) Practices are conducive to good financial management.

(b) There is full compliance with all relevant financial standards and statutory requirements.

(c) Financial practices and reports are accurate, reliable, easy to understand and consistent.

PROVISIONS

1. FINANCIAL REPORTING

Financial Reporting is required to meet statutory requirements along with the organisational needs of the Shire to effectively monitor financial performance.

Monthly Reporting

Monthly reports will be prepared in accordance with section 6.4(2) of the Act and regulation 34 of the Regulations. Reports will be prepared on a calendar basis, in a timely manner and presented at the next available Council meeting.

Annual Financial Reporting

The Annual Financial Report will be prepared in accordance with section 6.4 of the Act and regulations 36 to 50 of the Regulations. The Annual Financial Report must be submitted to the

Shire's auditors by 30 September in the subsequent financial year. The audited Annual Financial Report will then be presented to Council.

2. ANNUAL BUDGET

The Annual Budget for the Shire is to be prepared in accordance with section 6.2 of the Act and regulations 22 to 33 of the Regulations. The Shire's Chief Executive Officer must ensure that the Annual Budget for the financial year is presented to Council after 1 June but no later than 31 August in the year to which the Annual Budget relates.

3. BUDGET REVIEW

Budget reviews will be conducted throughout the financial year as good financial practice. Any proposed budget amendments will be presented to Council, for determination, as part of the Monthly Financial Statements.

The Shire must undertake a formal Budget Review as per regulation 33A of the Regulations. The review must be undertaken between 1 January and 31 March each financial year. The review must consider the Shire's financial performance, position and outcomes. Council must be presented with the review within 30 days and determine whether to adopt.

Financial reports should be prepared in accordance with the following significant accounting policies:

1. Basis of Preparation

1.1 Prepared in accordance with applicable Australian Accounting Standards (as they apply to local government and not-for-profit entities), Australian Accounting Interpretation, other authoritative pronouncements of the Australian Accounting Standards Board, the Local Government Act 1995 and accompanying regulations. Material accounting policies which have been adopted in the preparation of the financial report are presented below and have been consistently applied unless otherwise stated.

1.2 Except for cash flow and rate setting information, the financial report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

2. The Local Government Reporting Entity

2.1 All Funds through which the Council controls resources to carry on its functions have been included in the financial statements.

2.2 In the process of reporting on the local government as a single unit, all transactions and balances between those Funds (for example, loans and transfers between Funds) have been eliminated.

All monies held in the Trust Fund are excluded from the financial statements. A separate statement of those monies appears as a note.

3. Rounding Off Figures

3.1 All figures shown in financial reports, other than a rate in the dollar, are rounded to the nearest dollar.

4. Rates, Grants, Donations and Other Contributions

4.1 Rates, grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions.

4.2 Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

5. Goods and Services Tax (GST)

5.1 Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

5.2 Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position.

5.3 Cash flows are presented on a Gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

6. Superannuation

6.1 The Council contributes to a number of Superannuation Funds on behalf of employees.

6.2 All funds to which the Council contributes are defined contribution plans.

7. Cash and Cash Equivalents

7.1 Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

7.2 Bank overdrafts are shown as short term borrowings in current liabilities in the statement of financial position.

8. Trade and Other Receivables

8.1 Trade and other receivables include amounts due from ratepayers for unpaid rates and service charges and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

8.2 Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets.

8.3 All other receivables are classified as non-current assets. Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

9. Inventories

General

9.1 Inventories are measured at the lower of cost and net realisable value.

9.2 Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Land Held for Resale

9.3 Land held for development and sale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, borrowing costs and holding costs until completion of development. Finance costs and holding charges incurred after development is completed are expensed.

9.4 Gains and losses are recognised in profit or loss at the time of signing an unconditional contract of sale if significant risks and rewards, and effective control over the land, are passed on to the buyer at this point.

9.5 Land held for sale is classified as current except where it is held as non-current based on Council's intentions to release for sale.

10. Fixed Assets

10.1 Each class of fixed assets within either property, plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Mandatory Requirement to Revalue Non-Current Assets

10.2 Effective from 1 July 2012, the Local Government (Financial Management) Regulations were amended and the measurement of non-current assets at Fair Value became mandatory.

10.3 The amendments allow for a phasing in of fair value in relation to fixed assets over three years as follows:

(a) for the financial year ending on 30 June 2013, the fair value of all of the assets of the local government that are plant and equipment; and

(b) for the financial year ending on 30 June 2014, the fair value of all of the assets of the local government –

- that are plant and equipment; and
- that are –
- land and buildings; or
- infrastructure.

and

(c) for a financial year ending on or after 30 June 2015, the fair value of all of the assets of the local government.

10.4 Thereafter, in accordance with the regulations, each asset class must be revalued at least every 3 years.

10.5 In 2013, Council commenced the process of adopting Fair Value in accordance with the Regulations.

10.6 Relevant disclosures, in accordance with the requirements of Australian Accounting Standards, have been made in the financial report as necessary.

Land Under Control

10.7 In accordance with Local Government (Financial Management) Regulation 16(a), the Council was required to include as an asset (by 30 June 2013), Crown Land operated by the local government as a golf course, showground, racecourse or other sporting or recreational facility of state or regional significance.

10.8 Upon initial recognition, these assets were recorded at cost in accordance with AASB 116. They were then classified as Land and revalued along with other land in accordance with the other policies detailed in this Note.

10.9 Whilst they were initially recorded at cost (being fair value at the date of acquisition (deemed cost) as per AASB 116) they were revalued along with other items of Land and Buildings at 30 June 2015.

Initial Recognition and Measurement between Mandatory Revaluation Dates

10.10 All assets are initially recognised at cost and subsequently revalued in accordance with the mandatory measurement framework detailed above.

10.11 In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

10.12 Individual assets acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework detailed above, are carried at cost less accumulated depreciation as management believes this approximates fair value. They will be subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework detailed above.

Revaluation

10.13 Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

Transitional Arrangement

10.14 During the time it takes to transition the carrying value of non-current assets from the cost approach to the fair value approach, the Council may still be utilising both methods across differing asset classes.

10.15 Those assets carried at cost will be carried in accordance with the policy detailed in the Initial Recognition section as detailed above.

10.16 Those assets carried at fair value will be carried in accordance with the Revaluation Methodology section as detailed above.

Land Under Roads

10.17 In Western Australia, all land under roads is Crown land, the responsibility for managing which, is vested in the local government.

10.18 Effective as at 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in Australian Accounting Standard AASB 1051 Land Under Roads and the fact Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

10.19 In respect of land under roads acquired on or after 1 July 2008, as detailed above, Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

10.20 Whilst such treatment is inconsistent with the requirements of AASB 1051, Local Government (Financial Management) Regulation 4(2) provides, in the event of such an inconsistency, the Local Government (Financial Management) Regulations prevail.

10.21 Consequently, any land under roads acquired on or after 1 July 2008 is not included as an asset of the Council.

Depreciation

10.22 The depreciable amount of all fixed assets including buildings but excluding freehold land, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

10.23 Major depreciation periods used for each class of depreciable asset are:

Buildings	40 years
Furniture and Equipment	8 years
Plant and Equipment	8 years
Infrastructure	
Sealed Roads, Streets and Carparks	Condition Rated Annually
Unsealed Roads	Condition Rated Annually
Bridges, Drainage	1.30%
Concrete Footpaths, Cycleways, Walkways and Skate Park	50 Years
Brick Footpaths	25 Years
Effluent Systems	20 Years
Sewerage Parks	75 – 80 Years
Water Pipes and Hydrants	20 Years
Bush Shelters	20 Years
Parks Furniture and Equipment	5 – 20 Years

10.24 The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

10.25 An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

10.26 Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss in the period which they arise.

10.27 When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained surplus.

Capitalisation Threshold

10.28 Expenditure on items of equipment under $1,000 is not capitalised. Rather, it is recorded on an asset inventory listing.

11. Fair Value of Assets and Liabilities

11.1 When performing a revaluation, the Council uses a mix of both independent and management valuations using the following as a guide:

(a) Fair Value is the price that Council would receive to sell the asset or would have to pay to transfer a liability, in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date

(b) As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

(c) To the extent possible, market information is extracted from either the principal market for the asset (i.e. the market with the greatest volume and level of activity for the asset) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs).

(d) For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

12. Fair Value Hierarchy

12.1 AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurement into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

(a) Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

(b) Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

(c) Level 3

Measurements based on unobservable inputs for the asset or liability.

12.2 The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3. The techniques are as follows:

Valuation techniques

The Council selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Council are consistent with one or more of the following valuation approaches:

Market approach

Valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

Income approach

Valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

Cost approach

Valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Council gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability and considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

As detailed above, the mandatory measurement framework imposed by the Local Government (Financial Management) Regulations requires, as a minimum, all assets carried at a revalued amount to be revalued at least every 3 years.

13. Financial Instruments

Initial Recognition and Measurement

13.1 Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Council commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

13.2 Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

13.3 Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is calculated as:

(a) the amount in which the financial asset or financial liability is measured at initial recognition;

(b) less principal repayments and any reduction for impairment; and

(c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest rate method.

13.4 The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

(i) Financial assets at fair value through profit and loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short term profit taking. Assets in this category are classified as current assets. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Loans and receivables are included in current assets where they are expected to mature within 12 months after the end of the reporting period.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturities and fixed or determinable payments that the Council's management has the positive intention and ability to hold to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Held-to-maturity investments are included in current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as non-current.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in current assets, where they are expected to be sold within 12 months after the end of the reporting period. All other available for sale financial assets are classified as non-current.

(v) Financial liabilities

Non-derivative financial liabilities (excl. financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in the profit or loss.

Impairment

13.5 A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s). In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

13.6 In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

13.7 For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

Derecognition

13.8 Financial assets are derecognised where the contractual rights for receipt of cash flows expire or the asset is transferred to another party, whereby the Council no longer has any significant continual involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

14. Impairment of Assets

14.1 In accordance with Australian Accounting Standards the Council's assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

14.2 Where such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

14.3 Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another standard (e.g. AASB 116) whereby any impairment loss of a revaluation decrease in accordance with that other standard.

14.4 For non-cash generating assets such as roads, drains, public buildings and the like, value in use is represented by the depreciated replacement cost of the asset.

15. Trade and Other Payables

15.1 Trade and other payables represent liabilities for goods and services provided to the Council prior to the end of the financial year that are unpaid and arise when the Council becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition.

16. Employee Benefits

Short-Term Employee Benefits

16.1 Provision is made for the Council's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

16.2 The Council's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Council's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Other Long-Term Employee Benefits

16.3 Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

16.4 The Council's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Council does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

17. Borrowing Costs

17.1 Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

18. Provisions

18.1 Provisions are recognised when the Council has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

18.2 Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

19. Current and Non-Current Classification

19.1 In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle. In the case of liabilities where the Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current even if not expected to be realised in the next 12 months except for land held for sale where it is held as non-current based on the Council's intentions to release for sale.

20. Comparative Figures

20.1 Where required, comparative figures have been adjusted to conform with changes in presentation for the current year.

21. Budget Comparative Figures

21.1 Unless otherwise stated, the budget comparative figures shown in the financial statements relate to the original budget estimate for the relevant item of disclosure.

PENALTIES:

Not applicable.

KEY TERMS/DEFINITIONS:

Not applicable.

Responsible Officer: Executive Manager Corporate & Community Services

Contact Officer: Finance Manager

Relevant Legislation: Local Government Act 1995 – Division 4
Local Government (Financial Management) Regulations 1996
Australian Accounting Standards
Taxation Legislation
Local Government (Audit) Regulations 1996

Review History:

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