

# LOCAL GOVERNMENT ACCOUNTING DIRECTIONS

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## 1. OBJECTIVE

The objective of this policy is to ensure that there is a level of consistency in the reporting of Council's accounts.

## 2. PRINCIPLES

The significant accounting policies that have been adopted in the preparation of the financial report are:

### 2.1 Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (as they apply to local governments and non-for-profit entities), other mandatory professional reporting requirements and the *Local Government Act 1995* and accompanying regulations. The report has also been prepared on the accrual basis under the convention of historical cost accounting as modified by accounting treatment relating to the revaluation of financial assets and liabilities at fair value through profit and loss and certain classes of non-current assets.

### 2.2 Critical Accounting Estimates

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of this form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

### 2.3 The Local Government Reporting Entity

All funds through which the Council controls resources to carry on its functions have been included in the financial statements forming part the financial report.

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, but a separate statement of those monies appears as a note in the financial statements.

### 2.4 Goods and Services Tax

In accordance with recommended practices, revenues, expenses and assets capitalised are stated net of any GST recoverable. Receivables and payables in the Statement of Financial Position are stated inclusive of applicable GST.

## **2.5 Cash and Cash Equivalents**

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of charges in value.

For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included as short term borrowings in current liabilities on the balance sheet.

## **2.6 Trade and Other Receivables**

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectable.

## **2.7 Inventories**

### **2.7.1 General**

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of the business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories held from trading are classified as current even if not expected to be realised in the next 12 months.

### **2.7.2 Land Held for Sale**

Land purchased for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and interest incurred on the financing of that land during its development. Interest and holding charges incurred after development is complete are recognised as expenses.

Revenue arising from the sale of property is recognised in the operating statement as at the time of signing a binding contract for sale.

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

## **2.8 Non-current Assets**

### **2.8.1 Initial Recognition**

Assets will be recognised and reported at fair value in accordance with Regulation 17A of the *Financial Management Regulations* and AASB 13 and AASB 116.

### **2.8.2 Capitalisation of Non-current Assets**

Expenditure of a capital nature is recognised as an asset if the threshold value exceeds the following levels:

Artworks	\$5,000
Land	ALL
Buildings	\$5,000
Plant, Equipment & Tools	\$5,000
Furniture	\$5,000
Infrastructure	\$5,000
All Other Assets	\$5,000

Expenditure items below these thresholds are generally expensed, with the exception of Land.

### 2.8.3 Categories of Non-current Assets

Assets are classified into the following categories:

- Land
- Artwork/Sculptures
- Buildings
- Furniture and (internal) Equipment
- Plant
- Equipment (external)
- Infrastructure

### 2.8.4 Revaluation of Non-current Assets

The Council's physical non-current assets will be revalued to fair value at least triennially in accordance with regulation 17A of the *Financial Management Regulations*. The fair value of each asset will be determined in accordance with AASB 13.

### 2.8.5 Depreciation of Non-current Assets

In accordance with AASB 116 a non-current asset begins to be depreciated when it becomes available for use. Depreciation is calculated based on the remaining useful life of an asset, the remaining useful life of an asset is a function of the expected useful life of the asset and the condition rating of the asset.

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

Asset Class		Expected Useful Life	Residual Value
Artwork/sculptures:			
	Paintings/sculptures	50	0%
	Sculptures/Structures	30	0%
Buildings:			
	Buildings	50	0%
	Buildings fixtures/fittings	11	0%
	Buildings on leased land	21	0%
	Transportable building	15	0%
Furniture & Internal Equipment:			
	Computers & peripherals	3	0%
	Other electronic equipment	4	0%
	Furniture	10	0%
Plant:			
	Construction plant (e.g.. prime movers and trailers)	12	20%
	Construction vehicles (e.g.. trucks)	8	20%
	Light commercial vehicles	5	40%
	Passenger vehicles	5	40%
	Heavy plant	4	10%
Equipment:			
	Heavy usage	2.5	0%
	Light usage	5	0%

Infrastructure:			
	Roads	12-80	0%
	Paths and cycleways	10-80	0%
	Aerodromes	28	0%
	Hard-court facility – bitumen	-25	0%
	Hard-court facility – concrete	42	0%
	Culverts	40-80	0%
	Miscellaneous structures	21	0%
	Boat ramps/jetties	25	0%
	Access Roads - Seal (Landfill & Transfer Station)	25	0%
	Airport Sealed Taxiway - Formation	75	0%
	Airport Sealed Taxiway - Pavement	50	0%
	Airport Sealed Taxiway - Surface	20	0%
	Airport Water System - Hydrants & Valves	25	0%
	Airport Water System - Pipework	40	0%
	Airport Water System - Pumps	25	0%
	Airport Water System - Tanks	30	0%
	Ancillary Assets (Leisureplex 50m Pool Boom)	25	0%
	Building & Structures	30	0%
	Car Park Furniture	40	0%
	Car Park Payment System	10	0%
	Closed Circuit Television	10	0%
	Effluent Ponds	60	0%
	Effluent Reuse Supply Pipes	25	0%
	Fencing - General	25	0%
	Fencing - Specialised	40	0%
	Irrigation	25	0%
	Landfill Cell	25	0%
	Lighting - General	20	0%
	Lighting - Bollard	15	0%
	Lighting - Oval & Carpark	20	0%
	Parks & Open Space Furniture	30	0%
	Bridges	60	0%
	Playground Equipment	15	0%
	Pool Structures	25	0%
	Power System	40	0%
	Sea Container - Specialised	40	0%
	Sea Container - Standard	25	0%
	Settlement Ponds	25	0%
	Skate Parks & Courts	30	0%
	Sports Courts, Pitches & Tracks	25	0%
	Stormwater Network	60-80	0%
	Street Furniture	15	0%
	Structures	30	0%
	Waste Ancillary Assets	40	0%

### **2.8.6 Land Under Roads**

Land under roads is excluded from being recorded as an asset under Regulation 16 of the *Financial Management Regulations*.

### **2.8.7 Impairment**

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.

Where such an indication exists, an estimate of the recoverable amount of the asset is made in accordance with AASB 136 "*Impairment of Assets*" and appropriate adjustments made.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

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.

## **2.9 Investments and Other Financial Assets**

### **2.9.1 Classification**

Council classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

### **2.9.2 Financial assets at fair value through profit and loss**

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if required principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designed as hedges. Assets in this category are classified as current assets.

### **2.9.3 Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

### **2.9.4 Held-to-maturity Investments**

Held-to-maturity investments are no-derivative financial assets with fixed or determined payments with fixed maturities that a Council's management has the positive intention and ability to hold to maturity. If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from reporting date, which are classified as current assets.

### **2.9.5 Available-for-sale Financial Assets**

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designed in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are designed as available-for-sale if they do not have a fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

### **2.9.6 Recognition and De-recognition**

Regular purchases and sales of financial assets are recognised on the trade-date the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have transferred and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised inequities are included in the income statement as gains and losses from investment securities.

### **2.9.7 Subsequent Measurement**

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are presented in the income statement within other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when Council's right to receive payments is established. Changes in fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

### **2.9.8 Impairment**

The Council's financial assets are assessed for impairment at each reporting date. Impairment losses are recognised in the statement of comprehensive income.

### **2.9.9 Estimation of Fair Value**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of the market inputs and relying as little as possible on entity-specific inputs.

Quoted market prices, dealer quotes or similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The normal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

### **2.10 Trade and Other Payables**

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Municipality prior to the end of the financial year that are unpaid and arise when the Municipality becomes obliged to make future payments in respect of the purchase of these goods or services. The amounts are unsecured and are usually paid within 30 days of recognition.

## **2.11 Employee Benefits**

The provisions for employee benefits relates to amounts expected to be paid for long service leave, annual leave, wages and salaries and are calculated as follows:

### **Wages, Salaries, Annual Leave and Long Service Leave (Short-term Benefits)**

The provision for employees' benefits to wages, salaries, annual leave and long service leave expected to be settled within 12 months represents the amount the Council has a present obligation to pay resulting from employees services provided to reporting date. The provision has been calculated at nominal amounts based on remuneration rates the Council expects to pay and includes related on-costs.

The liability for Long Service Leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match as closely as possible, the estimated future cash outflows. Where the Council does not have the unconditional right to defer settlement beyond 12 months, the liability is recognised as a current liability.

## **2.12 Interest-bearing Loans and Borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### **2.12.1 Borrowing Costs**

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.

## **2.13 Provisions**

Provisions are recognised when:

- the Council has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- the outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

## **2.14 Leases**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the company, are classified as finance leases. Finance leases are capitalised recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are amortised over their estimated useful lives. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are as expenses in the periods in which they are incurred.

## **2.15 Joint Venture**

The municipality's interest in a joint venture will be recognised in the financial statements by including its share of any assets, liabilities, revenues and expenses of the joint venture within the relevant items reported in the Statement of Financial Position and Statement of Comprehensive Income .

## **2.16 Rates, Grants, Donations and Other Contributions**

Rates, grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions. Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 2(c). That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operation for the current reporting period.

## **2.17 Superannuation**

The City of Karratha contributes to the Local Government Superannuation Scheme and to other Occupational Superannuation Funds on behalf of employees. These funds are defined contribution schemes and the Council has no further liability in respect of these funds. Contributions to defined contribution plans are recognised as an expense as they become payable.

## **2.18 Rounding off Figures**

All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar.

## **2.19 Comparative Figures**

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

## **2.20 Current and Non-Current Classification**

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 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 resale where it is held as non-current based on Council's intentions to release for sale.



### 3. CONSEQUENCES

This policy represents the formal policy and expected standards of the Council. Appropriate approvals need to be obtained prior to any deviation from the policy. It is imperative that Councillors and Officers retain appropriate documentation to substantiate their expenditure. Elected Members and Employees are reminded of their obligations under the Council's Code of Conduct to give full effect to the lawful policies, decisions and practices of the Council.

### 4. REFERENCES TO RELATED DOCUMENTS

- *Local Government Act 1995*
- *Local Government (Financial Management) Regulations 1996)*
- City of Karratha Enterprise Agreement
- Australian Accounting Standards made and amended from time to time by the Australian Accounting Standards Board

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Resolution Numbers:	7859-Jun 1994; 11646-Jun 1999; 12738-Sep 2002; 13497-Oct 2004; 14223-Oct 2007; 14842-Oct 2009; 152528-Jun 2013; 152922-Aug 2014; 153372-Feb 2016; 154386-Jul 2019
Last Review:	July 2019
Next Review:	July 2021
Responsible Officer:	Manager Financial Services/CFO

*This policy takes effect from the date of adoption by Council and shall remain valid until it is amended or deleted.*