

Accounting

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Policy Objectives

To provide a policy framework for the financial management of the City of Melville that secures the accuracy and reliability of accounting data, financial reporting and budgeting and ensures that all statutory obligations and Australian Accounting Standards are met.

Policy Scope

This Policy covers accounting, budgeting, financial reporting and financial governance activities of the City. The Policy is to be read and implemented in conjunction with the City's other relevant policies, strategies, procedures and documents. This change to policy is effective from 1 July 2018 (financial year 2018-19 onwards).

Policy Statement

1. Responsibilities

In accordance with the *Local Government Act 1995* (The Act) and the *Local Government (Financial Management) Regulations 1996* (The Regulations) the Chief Executive Officer (CEO) has a duty to ensure that proper accounts and records of the transactions and affairs of the local government are kept in accordance with the regulations. Efficient systems and procedures are to be established by the CEO of a local government and the CEO is to ensure that the resources of the local government are effectively and efficiently managed. Whilst the ultimate responsibility lies with the CEO, the CEO will appoint suitably qualified officers and contractors to assist and advise her/him in meeting these responsibilities.

2. Accounting Framework

Accounting records will be maintained on a full accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of the selected non-current assets, financial assets and liabilities.

Accounting for revenues and expenses, assets and liabilities and the form of presentation of financial statements will be carried out in accordance with all applicable Australian Accounting Standards Board Standards (The Standards) and the provisions of The Act and relevant Regulations. Where there is an inconsistency between The Standards and legislative requirements the legislation will prevail and the extent of the inconsistencies between the Standards and the legislation disclosed by way of notes.

Accounting for revenues and expenses within the City is based on a framework of Directorates, Service Areas, Business Units, Budget Responsible Officers or other suitable view for management reporting purposes and by Nature and Type or Program and Sub-program or Directorates, Service Areas and Business Units for statutory reporting purposes. Accounting systems must also take into account the need to produce special purpose reports for other purposes such as fulfilling Australian Bureau of Statistic and Grants Commission requirements.

The City's Annual Budget is used to determine the amount of revenue to be raised by way of rates and service charges and to demonstrate to ratepayers and citizens how the financial resources of the City will be deployed.

The accounting framework should demonstrate transparent accountabilities for financial resources and establish a clear link between the raising of revenue as demonstrated by the budget document and the expenditure of that revenue on activities that support the City's strategic direction and statutory obligations.

3. Financial Reporting

Financial reporting is required to meet the internal organisational needs (Management Reporting), the City's statutory obligations (Statutory Reporting) and the reporting requirements of various other stakeholders such as the WA Grants Commission, other grantors and the Australian Bureau of Statistics (Special Purpose Reports). This will be achieved by production of the following reports.

(a) Monthly Reporting

Monthly reports will be provided to the Council in accordance with Section 6.4 (2) of The Act and Regulation 34 of The Regulations.

Sub-regulation 34(3) provides a choice as to how the information in a statement of financial activity may be shown i.e.:

- (a) according to nature and type classification; or
- (b) by program; or
- (c) by business unit i.e. Directorate/Service Area.

The City provides monthly financial reports to Council by Program, Sub Program and Nature & Type. This is accompanied by a detailed report by Sub Program on variances.

Sub-regulation 34(5) requires a local government to adopt a percentage or value, calculated in accordance with the AAS, to be used in statements of financial activity for reporting material variances. This will be undertaken when adopting the budget for each year.

Monthly reports will be prepared on a calendar month basis, and the reports will be presented at the next available Council meeting, allowing for a reasonable time for preparation of such reports.

(b) Annual Reporting

Section 6.4 of The Act requires annual financial reports to be prepared in the form prescribed, and submitted to its auditor by 30 September following each financial year.

Regulations 36 to 50 inclusive of The Regulations contain specific provisions regarding the manner and form and prescribed information referred to in 6.4 above.

The annual financial report will not be placed before the Council until it has been audited by the external auditor.

4. Budget and Budget Reviews

The annual budget will be prepared in accordance with Section 6.2 of The Act and relevant Regulations. Regulations 22 through to 33 inclusive of The Regulations contain extensive prescriptions for the preparation of the Annual Budget as referred to in Section 6.2 (4)(g) of The Act.

The Act provides that the Budget shall be adopted by absolute majority decision of the Council, in the period 1 June in a financial year to 31 August in the next financial year. Whilst The Act requires that the Council will adopt an Annual Budget before the 31st of August, in accordance with Financial Sustainability – Forward Financial Planning and Funding Allocation Policy CP-008, the Council will use its best endeavours to adopt the budget in June of each year. This will ensure sufficient liquidity in the Municipal Fund is maintained without the need to seek financial accommodation via overdraft, thus eliminating overdraft interest expenses whilst maximising investment earnings on the Municipal Fund.

Budget reviews will be conducted on an ongoing basis and reported to and approved by the Council within the Monthly Financial Statements report referred to in 3 (a) above.

In addition a comprehensive budget review will be undertaken at least once per annum in accordance with the provisions of The Regulations as reproduced below:-

Regulation 33A titled “Review of budget”, contains specific provisions relating to budget reviews which will be followed.

Sub-regulation 34(3) provides a choice as to how the information in a statement of financial activity may be shown i.e.:

- (a) according to nature and type classification; or
- (b) by program; or
- (c) by business unit i.e. Directorate/Service Area.

To enhance understanding of the Budget, the City will use a combination of (a), (b) and (c) when reporting.

5. Reporting Revenue and Expenditure by Program, Sub Program and Nature and Type

Reporting, of all revenue and expenses by “nature and type” shall be classified in accordance with Schedule 1 Part 2 of The Regulations.

6. Assets

Assets will be recognised and reported at fair values in accordance with Regulation 17A of The Regulations and AASB 5, 13, 116 and 136 of The Standards.

(a) Capitalisation of Assets

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

• Artworks	ALL
• Infrastructure	ALL
• Fleet mobile and fleet plant	ALL
• Land (incl. investment land)	ALL
• Investment Building	ALL
• Buildings	\$ 5,000
• Computer equipment	\$ 5,000
• Software	\$ 20,000
• All Other Assets	\$ 5,000

Expenditure items below these thresholds are generally expensed.

(b) Networked Asset

A network is a grouping of multiple assets that are individually below the capitalisation threshold. These assets perform a whole service and require recognition in the financial statements due to their collective value (i.e. computer network).

(c) Complex Assets

A complex asset (i.e. building, road etc.) can be apportioned into individual significant components. Assets will be recognised at component level where feasible. The significant components of the complex asset are identified and depreciated separately. This provides accurate and relevant information for users of financial statements in accordance with section 43 of AASB 116 and for asset management purposes.

A significant component is one that meets the following criteria:

- Can be separately identified and measured and is able to be separated from the complex asset;
- May have a different estimated useful life from the complex asset so that failure to depreciate it separately would result in a material difference in the annual depreciation expense for that asset;
- May require replacement and intervention at regular intervals during the life of the complex asset(i.e. re-sheeting of road);

When replacing a component of the complex asset, and if applicable, the existing written down value of the original component should be written off in accordance with AASB 116.

(d) Operating Asset

Assets below the thresholds may still be recorded in a separate operating asset register where required for asset management, insurance and administration purposes. These may include items that are considered highly attractive and portable items such as electronic equipment and small plant. These will however not be depreciated.

(e) Classes of Asset

Asset Class.	Components
Artwork	
Land	
- Municipal land	
- Land Held for sale -Non Current	
- Land Held for sale -Current	
- Investment land	
	- Sub Structure
	- Super Structure
	- Roof
	- Floor Coverings
	- Fitout & Fittings
	- Services - Fire
	- Services - Security
	- Services - Electrical
	- Services - Hydraulic
	- Services - Mechanical
	- Services - Transport
Buildings	
- General Buildings,	
- Investment Buildings;	
- Heritage Buildings	
Computer/CCTV equipment	
Electronic equipment	
Furniture & fittings	
Fleet (All Vehicles and Plant)	
Roads	- Formation
	- Base Course
	- Surface
Kerbing and Pavement	
Footpaths	
Stormwater Drainage	
Bridges	
Parks/POS	- Sports and Oval
	- Play spaces
	- POS Furniture
	- BBQ
	- Landscapes and Trees
	- Conservation Site
	- Fences
	- Bins
	- Sculptures/ Monuments
Irrigation	
Jetties and Boardwalk	
Lighting	
Traffic Management	

(f) Revaluation/Depreciation of Assets

Revaluation for Fair Value for financial reporting purposes and depreciation of assets will be carried out in accordance with the provisions of regulation 17A of The Regulations and AASB 113 and 116 of The Standards. This will be undertaken by an independent registered valuer appointed by the City. A full revaluation of all applicable asset classes will be undertaken at least once every three years. However, when an asset class has significant and volatile changes in fair value, a revaluation will be undertaken on a more frequent basis. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Complex asset components are measured on the same as the assets to which they relate, e.g. the Building asset is valued at fair value therefore each building component is also valued at fair value.

The valuation methods selected by the City are consistent with one or more of following valuation approach:

- Market Approach: Use of price and other relevant information generated by market transactions for identical or similar assets of liabilities;
- Income approach: Converts estimated future cash flows or Income and expenses into a single discounted present value. (i.e Parking machines);
- Cost approach: reflects the current replacement .

The City applies AASB 13 to disclose the fair value information by level of the fair value hierarchy, which categorise fair value measurement into one of three possible levels.

- **Level 1:** Measurements based on quoted prices in active markets;
- **Level 2:** Measurements are based on inputs other than quoted process included within level 1 that is observable for the asset, either directly or indirectly.
- **Level 3:** Measurements are based on unobservable inputs for the asset

Depreciation

The annual depreciation charge will be based on the following effective lives after taking into account any residual values expected to be achieved at disposal and will be expensed to the appropriate depreciation expense accounts. Depreciation begins when an asset is available for use and ceases at the earlier of:

1. The date the asset is classified as held for sale; and
2. The date that the asset is disposed or written-off

Depreciation will be recognised on a straight-line basis, using rates which are reviewed each reporting period. Each component will be depreciated separately. Work in progress will not be depreciated as the assets are not considered available for use.

Major depreciation periods are shown in the table below:

Asset Class.	Components	Depreciation: Rate
Artwork		Not Depreciated
Land		
- Municipal land		Not Depreciated
- Land Held for sale -Non Current		Not Depreciated
- Land Held for sale -Current		Not Depreciated
- Investment land		Not Depreciated
Buildings - General Buildings, - Investment Buildings; - Heritage Buildings	- Sub Structure	60-100 years
	- Sub Structure only for Heritage buildings	60-400 years
	- Super Structure	25-80 years
	- Roof	20-60 years
	- Floor Coverings	15-30 years
	- Fitout & Fittings	15-40 years
	- Services - Fire	10-40 years
	- Services - Security	10-40 years
	- Services - Electrical	10-40 years
	- Services - Hydraulic	10-30 years
	- Services - Mechanical	10-30 years
	- Services - Transport	10-40 years
Computer/CCTV equipment		3 - 5 years
Electronic equipment		3 - 5 years
Furniture & fittings		1 - 10 years
Fleet (All Vehicles and Plant)		1 - 10 years
Roads	- Formation	Not Depreciated
	- Base Course	50 - 80 years
	- Surface	10 - 30 years
Kerbing and Pavement		60 - 70 years
Footpaths		10 - 60 years
Stormwater Drainage		40 - 80 years
Bridges		40 -150 years
Parks/POS	- Sports and Oval	40 -100 years
	- Play spaces	10 - 15 years
	- POS Furniture	5 - 30 years
	- BBQ	5 - 20 years
	- Landscapes and Trees	5 - 40 years
	- Conservation Site	10 - 50 years
	- Fences	5 - 10 years
	- Bins	5 - 10 years
	- Sculptures/ Monuments	5 - 50 years
Irrigation		5 - 30 years
Jetties and Boardwalk		50 -100 years
Lighting		10 - 15 years
Traffic Management		5 - 15 years

In addition, to ensure that they reflect their fair value, the replacement cost valuation, residual values and useful lives of roads, footpaths and stormwater drainage are also internally reviewed by Officers and independently verified by an external asset management consultant appointed by the City on an annual basis.

g. Land Held for Resale

Land purchased for development and/or resale is valued in accordance with AASB 102 of The Standards.

(h) Accounting for Land Under Local Government's Control (including Land Under Roads).

Regulation 16 of The Regulations prohibits local governments from recognising the value of Crown and vested land under its responsibility or care and control, unless it is operated by the local government as a golf course, showground, racecourse or other sporting or recreational facility of State or regional significance.

AASB 1051 requires local government to recognise land under roads acquired on or after 1 July 2008 and enables discretion on whether or not to value land under roads acquired on or before 30 June 2008. The City elects not to recognise the value of land under roads acquired on or before 30 June 2008 in accordance with AASB 1051.

In respect to land under roads acquired on or after 1 July 2008, as detailed above, Regulation 16(a) prohibits local governments from recognising such land as an asset except in certain circumstances as shown above.

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

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

(i) Disposal of Assets

Disposal of assets will be treated in accordance with the provisions of AASB 116 of The Standards.

(j) Inventories

Accounting for Inventories will be undertaken in accordance with AASB 102 of The Standards.

7. Loans

See Policies CP-010 Self Supporting Loans and CP-024 Borrowings and Asset Financing for further details.

8. Particular Purpose Cash Backed Reserves

Reporting and treatment for all Reserves shall be classified in accordance with Regulation 38 of The Regulations. 'Particular' purpose reserve accounts that are Cash backed will be established to:

- Save for a future purpose, contingency or losses arising from investment activities;
- Fund the replacement of infrastructure or assets that are being consumed by the current generation of ratepayers so as to not impose an undue financial burden on future generations of ratepayers who have not had the benefit of that consumption;
- Help smooth out the uneven nature of non-linear cyclical expenditures of both an operational and capital nature; and
- To temporarily retain any surpluses or unspent funding that may arise from various activities to be used to in future years.

9. Interest earned on Reserve Investments

In order to help maintain the real value of the Reserve Accounts, interest earned from investing moneys held in Reserve Accounts is to be classified as operating revenue and then transferred to the particular Reserve Account in proportion to the average balance of the particular reserves over the interest earning period.

10. Financial Instruments

Financial instruments will be recognised, classified and measured in accordance with AASB 7 and AASB 139 of The Standards.

11. Impairment of Assets

Impairment of assets other than inventories will be treated in accordance with the provisions of AASB 136 of The Standards. All non-current assets, including intangible assets, are to be reviewed on an annual basis by asset custodians as detailed in the asset responsibility matrix for indications of impairment.

12. Superannuation

The City 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 City has no further liability in respect of these funds. Contributions to defined contribution plans are recognised as an expense as they become payable.

13. Employee Benefits

Employee benefits will be recognised and treated in accordance with the provision of AASB 119 of The Standards.

The liability for long service is calculated in accordance with the table shown below:

Long Service Leave Adjustment –		
	Entitlement	Probability
Year 1	1.3 Weeks	0.15
Year 2	2.6 Weeks	0.30
Year 3	3.9 Weeks	0.45
Year 4	5.2 Weeks	0.60
Year 5	6.5 Weeks	0.75
Year 6	7.8 Weeks	0.90

Year 7	9.1 Weeks	1.00	
Year 8	10.4 Weeks	1.00	
Year 9	11.7 Weeks	1.00	
Year 10	13.0 Weeks	1.00	

14. Bad Debts Write Offs

Debts (including rates and service charges) that are considered irrecoverable, or where the cost of recovery is uneconomic, may be written off under delegated authority (DA-032) in accordance with the provisions of Sections 5.42(1) and 6.12(1) of the Local Government Act 1995.

DA-032 empowers the Chief Executive Officer (CEO) to waive, grant concessions or write off in relation to any amount of monies owing to the City to a limit of \$10,000 for any one item. The CEO has partially on-delegated this to Director's to a value of \$5,000 and the Manager Financial Services, to a value of \$1,000 for any one item. This delegation is conditioned on the basis that details of any debts written off is to be submitted to Council in the monthly financial report.

Recommendation for write off will be made by the Senior Accountant (Management) and/or Revenue Coordinator. This cost is to be expensed against the budget area to which the revenue was originally credited.

15. Fringe Benefits Tax

The City will comply with Fringe Benefits Tax (FBT) legislative requirements whereby FBT is payable on benefits in place of, or in addition to, salary or wages of employees. Fringe benefits provided may also be required to be reported on employee's annual PAYG payment summaries. As the FBT year is not aligned with the financial year, the benefits reported on payment summaries is for the preceding FBT year, which runs from 1st April to 31st March.

16. Good and Services Tax

Goods and Services Tax (GST) will be treated in accordance with the provisions of UIG Interpretation 1031 of The Standards and the applicable tax laws set out by the Australian Taxation Office. Certain Australian taxes, fees and charges are exempt from GST. These are outlined in the Division 81 Fees and Charges Determination by the Commonwealth Treasurer.

The City of Melville is a registered organisation for the purposes of GST, therefore GST is generally payable on most goods and services the City sells or supplies to others in the course of business (excluding input taxed and GST free supplies).

17. Signatories to Municipal, Trust and Reserve Bank Accounts

DA-034 empowers the CEO to appoint & classify authorised signatories to Municipal, Trust & Reserve Bank Accounts. These signatories are separated into two categories (A & B) as set out in DA-035.

Approval of all payments and disbursements requires two signatures, one Category A and one from either a Category A or B.

Related Documentation:

Local Government Act 1995
Local Government (Financial Management) Regulations 1996
 Western Australian Local Government Accounting Manual
 Australian Accounting Standards
 Delegated Authority Manual
 Financial Sustainability – Forward Financial Planning and Funding Allocation Policy CP-008
 Self Supporting Loan Policy CP-010
 Asset Financing & Borrowings Policy CP-024

Other References Applicable to this Policy

Delegated Authority No: DA-032 Granting of a Concession or Writing off Debts Owed to the Council
 Delegated Authority No: DA-034 Authority to Appoint Authorised Signatories to Municipal, Trust & Reserve Bank Accounts
 Delegated Authority No: DA-035 Payment of Accounts from Municipal, Trust & Reserve Bank Accounts

Procedure No:

ORIGIN/AUTHORITY	Date	ITEM NO.
Community & Technical Services Committee	01/11/2005	C05/5010
REVIEWS		
Ordinary Meeting of Council	19/12/2006	C06/6024
Ordinary Meeting of Council	17/03/2009	C09/6020
Ordinary Meeting of Council	15/12/2009	C09/5097
Ordinary Meeting of Council	15/11/2011	C11/5199
Ordinary Meeting of Council	19/06/2013	C12/5240
Ordinary Meeting of Council	18/02/2014	M14/5341
Ordinary Meeting of Council	17/05/2016	C16/5484
Ordinary Meeting of Council	20/06/2017	C17/5561
Ordinary Meeting of Council	19/06/2018	C18/5617