ACCOUNTING STANDARDS POLICY

COUNCIL POLICY NO: 003	
Responsible Directorate	Corporate and Community Services
Responsible Section	Finance
Responsible Officer	Manager Finance

OBJECTIVE:

To adopt full accrual accounting and all other applicable accounting standards in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards. Please refer to the Town's Annual Report for details of the Significant Accounting Policies adopted.

SCOPE:

This policy applies to all Directorates of the Town of Cambridge.

POLICY STATEMENT:

1. The Local Government Reporting Entity

In accordance with Australian Accounting Standards, for the purposes of budgets and financial reports, the reporting entity includes all activities of the Council and any other entities controlled by the Council. All internal transactions and balances of the reporting entity have been eliminated to enable the reporting of the Council as a single unit. Money or other assets over which the Council has custody but not control are held in Trust and are reported in a separate note to the accounts.

2. Basis of Preparation

The financial report is a general purpose financial report and has been prepared to comply with applicable Australian Accounting Standards (as they apply to local governments and not for profit entities) and disclosure requirements of the *Local Government Act 1995* and *Local Government (Financial Management) Regulations 1996*. The financial report has been prepared on the accrual basis under the convention of historical cost accounting as modified by the 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.

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 experience and other factors combine to form the basis of making judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

3. Property, Plant and Equipment

(i) Capitalisation of Non-Current Assets

Property, plant and equipment acquired during the reporting period are brought to account at cost or if acquired other than by purchase, at fair value.

Fixed assets other than infrastructure assets are capitalised if the cost exceeds $1,000. Infrastructure assets are capitalised if the cost or valuation exceeds the following for each type of infrastructure.

Parks and Reserves	$10,000
Roads and Lanes	$10,000
Drainage	$10,000
Footpaths	$ 2,000
Bus Shelters	$ 2,000
Underpasses	$10,000

The Chief Executive Officer or nominee has discretion to capitalise assets with a value less than $1,000 having regard to the nature of the item.

(ii) Non-Current Assets

All assets are initially recognised at cost. 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 overhead.

(iii) Depreciation of Non-Current Assets

All non-current assets having a limited useful life (i.e. excluding freehold land) are systematically depreciated over their estimated useful lives in a manner which reflects the consumption of the service potential embodied in those assets.

Depreciation is recognised on a straight-line basis, using rates which are reviewed each reporting period. The major depreciation periods are:-

CATEGORY	USEFUL LIFE	DEPRECIATION RATE
Buildings		
- General	40 Years	2.5%
- Minor	10 Years	10%
Office Furniture and Equipment		
- Furniture	5-10 Years	20%-10%
- Non Electrical Equipment	10 Years	10%
- Electrical Equipment	4 Years	25%
- Computer Equipment and Software	3 Years	33.3%
External Plant and Equipment		
- Mobile Plant	3-10 Years	33.3%-10%
- Light Fleet	5-10 Years	20%-10%
- Fixed Plant	10 Years	10%
- Equipment	3-5 Years	33.3%-20%

Infrastructure		
- Parks and Reserves	5-75 Years	20%-1.5%
- Roads and Lanes	20-50 Years	5%-2%
- Drainage	50-75 Years	2%-1.3%
- Footpaths	50 Years	2%
- Bus Shelters	20 Years	5%
- Underpasses	60 Years	1.6%

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

4. Land Under Roads

(a) Acquired on or before 30 June 2008 –
Council has elected not to recognise the value of lands under roads acquired on or before 30 June 2008 in accordance with AASB 1051.

(b) Acquired on or after 1 July 2008 –
Land under roads acquired on or after 1 July 2008 is accounted for in accordance with AASB 116 – Property, Plant and Equipment. However, Regulation 16 of the *Local Government (Financial Management) Act 1996* prohibits the recognition of land under roads as asset that is crown land, but vested under the control or management of the local government.

Local Government (Financial Management) Regulation 4 states that where the Accounting Standard is inconsistent with the provisions of the regulations, the provisions of the regulations prevail to the extent of that inconsistency.

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

5. Rates, Grants, Donations and Other Contributions

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

The rating and reporting periods of the Council coincide. All rates levied for the year are recognised as revenues. All outstanding rates are collectable and therefore, no provision will be made for doubtful debts. Provision for other bad and doubtful debts is made where considered necessary.

Control over granted assets is normally obtained upon their receipt. Unreceived contributions over which the Council has no control are not recognised as receivables.

Where conditional contributions are received in advance and therefore recognised as revenues in that accounting period and the conditions on which those funds are to be expended are undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in the notes to the financial report.

Contributions received in advance and subject to undischarged conditions are classified as “Restricted Assets” and reported separately in the notes accompanying the financial report. These notes also disclose the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the Council's operations for the current reporting period.

6. Cash and Cash Equivalents

Items described in the Balance Sheet as "Cash and Cash Equivalents" include short term fixed, at-call deposits of cash that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and cash managed funds held with banks or other authorised financial institutions.

The Council holds no bonds or shares. All investments (excluding cash managed funds) are valued at cost and interest earnings on those investments are recognised as revenue as they accrue.

7. Inventories

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 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 twelve months.

8. Land Held for Resale

Land held for development and/or resale is valued at the lower of cost and net realisable value. Cost includes the cost of 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 Income Statement as at the time of signing a binding contract of 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.

9. Investments and Other Financial Assets

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 depends on the purpose for which the investments were acquired. Management determines 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.

(i) <u>Financial assets at fair value through profit and loss</u>

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

(ii) <u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable 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.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the 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 the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the 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 designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and De-recognition

Regular purchases and sales of financial assets are recognised on 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 or loss. Financial assets carried at fair value through profit or 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 been 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 in equity are included in the income statement as gains and losses from investment securities.

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 and 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 or loss category are presented in the income statement within other income or 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 the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Impairment

Council assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

10. 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 market inputs and relying as little as possible on entity-specific inputs.

Quoted market prices or dealer quotes for 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 nominal 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.

11. Impairment of Assets

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

Income Statement. 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.

12. Employee Entitlements

(i) <u>Leave Entitlements</u>

The provision for employee benefits relates to the amounts expected to be paid for annual leave and long service leave and are calculated as follows:

Annual Leave and Long Service Leave (Short Term Benefits)

The provision for employee benefits to annual leave and long service leave expected to be settled in 12 months represents the amount that the Town of Cambridge has a present obligation to pay resulting from employees services provided to balance date. The provisions have been calculated based on remuneration rates the Council expects to pay and includes related on-costs.

Long Service Leave (Long Term Benefits)

The provision for employee benefits to long service leave expected to be settled in more than 12 months represents the present value of the estimated future outflows to be made by the employer resulting from the employees service to balance 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 balance 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.

In respect of employees who have transferred to the Town of Cambridge from other Local Government Authorities, Council's liability for long service leave is recorded in the statement of financial position net of contributions due from other Local Government Authorities.

(ii) <u>Superannuation</u>

The Council meets the statutory requirements of the Superannuation Guarantee Act by contributing the minimum 9% to the WA Local Government Superannuation Plan or the City of Perth Superannuation Scheme depending on the employee's membership status. The Council also contributes an additional 3% to the WA Local Government Superannuation Plan and an additional 6% to the City of Perth Superannuation Scheme where voluntary contributions are made by employees.

The Council contributions are charged against revenue in the financial years to which the payments relate.

13. 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.

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

14. Trade and Other Payables

Trade payables and other payables are carried at amortised cost. They are recognised when the Town becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within thirty days of recognition.

15. 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; and the amount has been reliably estimated. 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.

16. Trade and other Receivables

Trade receivables, which generally have 30 - 90 day terms, are recognised in balance sheet at cost.

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

17. 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.

18. Rounding

All figures shown in the financial report have been rounded to the nearest dollar.

19. Comparatives

Comparative figures are, where appropriate, reclassified as to be comparable with the figures presented for the current financial year.

20. Interest in Regional Councils

The Council is a participant in both the Mindarie Regional Council and Tamala Park Regional Council with six other Councils, namely the Cities of Joondalup, Wanneroo, Stirling, Perth and the Towns of Vincent and Victoria Park.

DEFINITIONS:

Definitions are taken as those detailed in the *Local Government Act 1995* and associated legislation.

Document Control	
Office Use Only:	
Previous Policy No	Policy No. 3.2.4
Statutory Legislation and Compliance	*Local Government Act 1995*
Related Documents/Legislation	*Local Government (Financial Management) Regulations 1996*
Date of Adoption by Council	Council Meeting – 8 August 1995
Date Reviewed/Amended	16 July 1996, 17 September 1996, 22 July 1997, 28 October 1997 27 July 1999, 27 June 2000, 27 August 2002, 28 October 2003 20 December 2005, 27 April 2010, 28 July 2020
Next Review Date	April 2024