

POLICY NO:F/FM/2

FORMER POLICY NO:

SIGNIFICANT ACCOUNTING POLICIES - BUDGETS

| DIVISION | BUSINESS UNIT | RESPONSIBILITY AREA |
|--------------------|----------------------|----------------------------|
| Corporate Services | Finance | Financial Management |

OBJECTIVE:

To provide direction for the preparation of financial transactions and budgeting.

POLICY:

The significant accounting policies used in the preparation of budgets are as follows:

a. Basis of Preparation

The budget has been prepared in accordance with applicable Australian Accounting Standards, other mandatory professional reporting requirements, the Local Government Act 1995 (as amended) and accompanying regulations (as amended). The budget has also been prepared on the accrual basis under the convention of historical cost accounting.

b. 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 of this budget.

In the process of reporting on the local government as a single unit, all transactions and balances between those funds (e.g.: loans and transfers between funds) have been eliminated.

All moneys held in the trust fund are excluded from the financial statements, but a separate statement of those moneys appears at Note 13.

c. *[Insert Year]* Actual Figures

Balances shown in this budget as ‘Actual 30 June *[Insert Year]*’ are as forecast at the time of budget preparation and are subject to final adjustments.

d. Rounding Off Figures

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

e. Rates, Grants, Donations & 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

f. Goods & Services Tax (GST)

In accordance with recommended practice, 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.

g. Superannuation

The Shire of Plantagenet contributes the 9% super guarantee to each employee's chosen fund as per the change in legislation that occurred on 1 July 2006. The only exception to this is state and federal funds which do not allow non-employees to contribute.

Any employees who take advantage of the Council's 3% co-contribution must have this portion of the funds contributed to the WA Local Government Superannuation Plan.

All funds that the Shire contributes to are defined contribution schemes.

h. Cash & Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the cash flow statement, 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.

i. Trade & Other Receivables

Trade receivables, which generally have thirty to ninety day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any allowance for uncollectible amounts.

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

j. Fixed Assets

Initial Recognition

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 includes the cost of all materials, direct labour and variable and fixed overheads.

Revaluation

Certain asset classes may be revalued on a regular basis such that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on a basis to reflect the already consumed or expired future economic benefits.

Those assets carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses, are to be revalued with sufficient regularity to ensure the carrying amount does not differ significantly from that determined using fair value at reporting date.

k. Depreciation of Non-Current Assets

All non-current assets having a limited useful life are separately and systematically depreciated over their useful lives in a manner which reflects the consumption of the future economic benefits embodied in those assets.

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

| | |
|---|-----------------|
| Buildings | 40 Years |
| Furniture & Fittings | 5 to 10 Years |
| Plant & Equipment | 5 to 10 Years |
| Sealed Roads & Streets | |
| - Clearing & Earthworks | Not Depreciated |
| - Construction / Road Base | 50 Years |
| Original Surfacing & Major Re-Surfacing | |
| - Bituminous Seals | 20 Years |
| - Asphalt Surfaces | 25 Years |
| Gravel Roads | |
| - Clearing & Earthworks | Not Depreciated |
| - Construction / Road Base | 50 Years |
| - Gravel Sheet | 12 Years |
| Formed Roads (Unsealed) | |
| - Clearing & Earthworks | Not Depreciated |
| - Construction / Road Base | 50 Years |
| Footpaths - Slab | 40 Years |
| Sewerage Piping | Not Depreciated |
| Water Supply Piping & Drainage Systems | 75 Years |

l. Investments & Other Financial Assets

Financial assets in the scope of AASB139 'Financial Instruments: Recognition and Measurement' are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Council determines the

classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

m. Land Held For Resale

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 of sale.

n. 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 Income Statement.

At the time of adopting the budget, it is not possible to estimate the amount of impairment losses (if any) as at 30 June [*Insert Year*].

o. Trade & 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 and services. The amounts are unsecured and are usually paid within thirty days of recognition.

p. 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:

(i) *Wages, Salaries, Annual Leave & 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 twelve (12) months represents the amount the municipality has a present obligation to pay resulting from employees services provided to balance date. The provision has been calculated at nominal amounts based on remuneration rates the Council expects to pay and includes related on-costs.

(ii) *Annual Leave & Long Service Leave (Long-term Benefits)*

The provision for employee benefits for annual leave and long service leave expected to be settled more than twelve (12) months from the reporting date represents the present value of the estimated future cash outflows to be made by the employer resulting from the employee's service to balance date.

q. Interest-Bearing Loans & 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 Council has an unconditional right to defer settlement of the liability for at least twelve (12) months after the balance sheet date.

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.

r. 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.

s. Superannuation

The Shire of Plantagenet contributes to the Local Government Superannuation Scheme and the Occupational Superannuation Fund. Both Funds are defined contribution schemes.

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent a cash refund or a reduction in the future payments is available.

t. 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 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 resale where it is held as non-current based on the Council's intentions to release for sale.

ADOPTED: 10 September 2002

LAST REVIEWED: 28 October 2008