ACCOUNTING

Originated Date:	Adopted 30 June 1994 (as Policy 1)
Amended Date/s:	Amended 12 March 2002 Amended 24 April 2006 – Minute No. 137/06 Amended 21 September 2009 – Minute No. 255/09 Amended 19 January 2015 – Minute No. 13/15 Amended 12 December 2016 – Minute No. 364/16 Amended 19 July 2021 – Minute No. 274/21
Applicable Legislation:	*Local Government Act 1993 – Section 84*
Objective	The general purpose financial report will be prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Local Government Act 1993 (as amended).
Administration:	Corporate Services
Review Cycle/Date:	Next review 2024

1. BASIS OF ACCOUNTING

Council's financial report is a general purpose financial report that consists of the Statements of Comprehensive Income, Financial Position, Changes in Equity, Cash Flows, and notes accompanying the financial statements. The general purpose financial report will comply with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the *Local Government Act 1993* (LGA 1993) (as amended).

The financial report is to be prepared on the accrual and going concern basis.

The general purpose financial reports of Council will be prepared under the historical cost convention, as modified by the revaluation of certain classes of property, plant and infrastructure; investment in water corporation and provisions.

Unless otherwise stated, all accounting policies will be consistent with those applied in the prior year. Where appropriate, comparative figures will be amended to accord with current presentation, and disclosure will be made of any material changes to comparatives.

All entities controlled by Council such as Special Committees of Management will be included in the financial report. All transactions between these entities and Council will be eliminated in full.

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

The estimates and underlying assumptions will be reviewed on an ongoing basis. Revisions to accounting estimates will be recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Council will not make assumptions concerning the future that may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

Judgements made by Council that have significant effects on the Financial Report will be disclosed in the relevant notes as follows:

- *Fair Value of Property Plant & Infrastructure*
  Assumptions and judgements are utilised in determining the fair value of Council's property, plant and infrastructure including useful lives and depreciation rates. These assumptions are discussed in the items relating to *expense recognition* and *recognition and measurement of assets* below.

- *Employee entitlements*
  Assumptions will be utilised in the determination of Council's employee entitlement provisions. These assumptions are discussed in the item relating to *employee benefits* below.

- *Investment in Water Corporation*
  Assumptions utilised in determination of Council's valuation of its investment in TasWater are discussed in the item relating to *investment in water corporation* below.

2. LOCAL GOVERNMENT REPORTING ENTITY

All funds through which Council controls resources to carry out its functions will be included in the financial report.

In the process of reporting on the Northern Midlands Council as a single unit, all transactions and balances between those funds (e.g. loans and transfers) will be eliminated. The recording of transactions and balances for internal borrowings will be eliminated.

3. DEFINING ACTIVITIES

Activities of Council are classified into the following functions:

I) GOVERNANCE

Governance includes provision of elected representation, executive support, strategic planning, economic development, community development, public relations; and the provision of services relating to: recreation, committees of management & non-profit organisations, animal control and health & environmental management.

II) CORPORATE SERVICES

Corporate Services includes the management of financial, information and asset; risk and work health & safety portfolios; early childhood and youth; events & tourism promotion and community services.

III) DEVELOPMENT SERVICES

Development Services includes the provision of services relating to building, land use planning, urban design and compliance.

IV) WORKS & INFRASTRUCTURE

Works and Infrastructure includes the maintenance and construction of Council amenities, parks and reserves, engineering services and waste management.

4. REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is measured on major income categories as follows:

I) RATE REVENUE

Council recognises revenue from rates for the amount it is expected to be entitled at the beginning of the rating period to which they relate, or when the charge has been applied. Rates in advance are recognised as a financial liability until the beginning of the rating period to which they relate.

Rates are recognised when Council obtained control over the assets comprising the receipt. Control over assets acquired from rates is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt.

II) GRANTS

Council will recognise untied grant revenues and those without performance obligations when received. In cases where funding includes specific performance obligations or is to acquire or construct a recognisable non-financial asset, a liability will be recognised for funds received in advance and will recognise income as obligations are fulfilled.

Each performance obligation will be considered to ensure that the revenue recognition reflects to transfer of control within the grant agreements there may be some performance obligations where control transfers at a point in time and others which have continuous transfer of control over the life of the contract. Where control is transferred over time, generally the input methods being either costs or time incurred will be deemed to be the most appropriate methods to reflect the transfer of benefit. For construction projects, this will generally be as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project as there is no profit margin. For acquisition of assets, the revenue will be recognised when the asset is controlled by the Council.

The Australian Commonwealth Government provides untied Financial Assistance Grants to Council for general purpose use and the provision of local roads, Council will recognise these grants as revenue when it receives the funds and obtains control. Grant income will be recognised when Council obtains control over the assets comprising the receipt. Control over granted assets is normally obtained upon their receipt or upon earlier notification that the grant has been secured, and will be valued at their fair value at the date of transfer. Where grants recognised as revenue during the financial year are obtained on condition that they be expended in a particular manner or used over a particular period and those conditions are undischarged at balance date, the unused grant will also be disclosed. Unreceived contributions over which Council has control will be recognised as receivables.

Donations and other contributions that are not subject to accompanying conditions that they be expended in a particular manner or for a particular purpose will be recognised as revenue in the reporting period when Council obtains control over the assets comprising the contributions and donations.

Non-monetary contributions (including developer contributions) with a value in excess of the recognition thresholds, will be recognised as revenue and as non-current assets.

III) USER CHARGES

Council will recognise revenue from user fees and charges when or as the performance obligation is completed and the customer receives the benefit of the goods/services provided. Licences granted by Council are either short-term or low value and all revenue will be recognised at the time that the licence is granted rather than the term of the licence.

User fees and charges will be recognised as revenue when the service has been provided, or the payment is received, whichever first occurs.

IV) SALE OF PROPERTY, PLANT AND INFRASTRUCTURE

The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

V) INTEREST

Interest will be recognised as revenue on a proportional basis when the payment is due, the value of the payment is notified, or the payment is received, whichever first occurs.

VI) INVESTMENT REVENUE FROM WATER CORPORATION

Dividend revenue will be recognised when Council's right to receive payment is established.

VII) OTHER INCOME

Rental Income will be recognised as revenue when the payment is due. Rental payments received in advance will be recognised as payable until they are due. Volunteer Services, Council wilk recognise the inflow of resources in the form of volunteer services where the fair value of these services can be reliably measured and Council would have purchased those services if they had not been donated.

5. EXPENSE RECOGNITION

Expenses will be recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in asset or an increase of a liability has arisen that can be measured reliably.

I) EMPLOYEE BENEFITS

Employee benefits include, where applicable, entitlements to wages and salaries, annual leave, sick leave, long service leave, superannuation and any other post-employment benefits.

II) DEPRECIATION OF PROPERTY, PLANT & INFRASTRUCTURE

Buildings, land improvements, plant, infrastructure and other assets having limited useful lives will be systematically depreciated over their useful lives to the Council in a manner which reflects consumption of the service potential embodied in those assets. Estimates of remaining useful lives and residual values will be made on a regular basis with major asset classes reassessed annually. Depreciation rates and methods will be reviewed annually.

Where assets have separate identifiable components that are subject to regular replacement, these components are to be assigned distinct useful lives and residual values and a separate depreciation rate is determined for each component.

Road earthworks are not to be depreciated on the basis that they are assessed as not having a limited useful life.

Land is not depreciated.

Straight line depreciation will be charged based on the residual useful life as determined each year.

Major depreciation periods to be used are listed below:

Asset		Life (Years)
Land		Unlimited
Land Under Roads		Unlimited
Buildings		5 - 124
Flood Levee Infrastructure	- Depreciable Component	100
	- Non-Depreciable Component	Unlimited
Furniture, Fittings, Office Equipment & Computers		2 – 20
Fleet		2 – 20
Heritage Assets	- Depreciable Component	20 – 100
	- Non-Depreciable Component	Unlimited
Plant		10 – 50
Roads Infrastructure	- Formation	Unlimited
	- Pavement	10 – 90

Asset	Life (Years)
- Surface Treatment	12 – 80
- Footpaths	15 – 70
- Kerb & Channel	15 – 100
- Street Furniture	15 – 100
Bridges	20 – 100
Stormwater & Drainage	80 – 100

III) Repairs & Maintenance

Routine maintenance, repair costs, and minor renewal costs will be expensed as incurred. Where repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold the cost is capitalised and depreciated. The carrying value of the replaced asset is expensed.

6. RECOGNITION AND MEASUREMENT OF ASSETS

I) Assets

The Council controls and owns assets that are required to provide the services for which it has responsibility. These assets include:

- land,
- buildings,
- fleet,
- plant and infrastructure; i.e. roads, bridges and stormwater.

II) Acquisition and Recognition

The cost method of accounting will be used for the initial recording of all acquisitions of assets.

'Cost' represents the fair value of these assets given as consideration plus costs incidental to their acquisition (including architects fees, engineering design fees, and administration charges and all other costs incurred) in getting the asset ready for use.

Property, infrastructure, plant and equipment received in the form of contributions, will be recognised as assets and revenues at fair value by Council valuation where that value exceeds the recognition thresholds for the respective asset class. Fair value is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.

In determining the cost of non-current assets constructed by the Council, 'Cost' includes all materials used in the construction, direct labour on the project and an appropriate proportion of variable and fixed overheads. The cost of all materials includes all consulting and engineering fees.

Non-monetary assets received in the form of grants or donations will be recognised as assets and revenues at their fair value at the date of receipt.

'Fair value' means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms length transaction. In relation to infrastructure assets it is represented by depreciated replacement cost.

Council applies a capitalisation threshold and assets purchased or constructed with a value less than this threshold will be charged to the Statement of Comprehensive Income in the year of purchase (Other than where they form part of a group of similar items which are material in total).

The following classes of assets are to be recognised in the general purpose financial reports of Council, the threshold limits detailed below will be applied when recognising assets within an applicable asset.

Asset	Threshold $
Land	Nil
Land Under Roads	Nil
Buildings	5,000
Flood Levee Infrastructure	3,000
Furniture, Fittings, Office Equipment & Computers	1,000
Fleet	1,000
Plant	1,000
Roads Infrastructure	5,000
Bridges	5,000
Stormwater & Drainage	3,000
Heritage Assets	1,000

III) VALUATION OF NON-CURRENT ASSETS

Subsequent to the initial recognition of assets, non-current physical assets, other than asset categories listed in the table below as at cost, will be measured at their fair value in accordance with AASB 116 Property, Plant and Equipment and AASB 13 Fair Value Measurement. At balance date, Council will review the carrying value of the individual classes of assets measured at fair value to ensure that each asset class materially approximates its fair value. Where the carrying value materially differs from the fair value at balance date the class of asset will be revalued.

In addition, Council undertakes a formal revaluation of land, buildings and infrastructure assets on a regular basis to ensure valuations represent fair value. The valuation is performed either by experienced Council officers or independent experts.

Where the assets are revalued, the revaluation increments will be credited directly to the asset revaluation surplus except to the extent that an increment reverses a prior year decrement for that class of asset that had been recognised as an expense in which case the increment is recognised as revenue up to the amount of the expense. Revaluation decrements will be recognised as an expense except where prior increments are included in the asset revaluation surplus for that class of asset in which case the decrement is taken to the reserve to the extent of the remaining increments. Within the same class of assets, revaluation increments and decrements within the year are to be offset.

Council has adopted the following valuation basis for its non-current assets:

Asset	Valuation basis
Land	Fair value
Land Under Roads	Fair value
Buildings	Fair value
Flood Levee Infrastructure	Cost
Furniture, Fittings, Office Equipment & Computers	Cost
Fleet	Cost
Plant	Cost
Roads Infrastructure	Fair value
Bridges	Fair value

Asset	Valuation basis
Stormwater & Drainage	Fair value
Heritage Assets	Cost

IV) IMPAIRMENT OF ASSETS

At each reporting date, Council will review the carrying value of its assets to determine whether there is any indication that these assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value of its recoverable amount is expensed to the Statement of Comprehensive Income, unless the asset is carried at the revalued amount in which case, the impairment loss is recognised directly against the revaluation reserve in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset.

Assets that have an indefinite useful life will not be subject to amortisation and will be tested annually for impairment. Assets that are subject to amortisation will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For non-cash generating assets of Council such as roads, bridges, stormwater & drainage and the like, value in use is represented by the deprival value of the asset approximated by its written down replacement cost.

V) MAINTENANCE VS CAPITALISATION

Officers of the Council will determine at the occurrence of an event whether to capitalise or expense costs incurred in property, plant and infrastructure. The following formula is provided as a guide, "maintenance, repair costs and minor renewals will be charged as expenses as incurred unless their total value exceeds 10% of the written down current value and increases the economic life by more than 10%".

7. CASH & CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits at call with financial institutions, other short-term, highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

8. INVENTORIES

Inventories held for distribution will be measured at cost adjusted when applicable for any loss of service potential.

9. INVESTMENT IN WATER CORPORATION

Council's investment in TasWater will be valued at its fair value at balance date. Fair value will be determined by using Council's ownership interest against the Water and Sewerage Corporation's net asset value at balance date. Council's ownership interest in TasWater, which is based on Schedule 2 of the Corporation's Constitution, decreased from 2.49% at 30 June 2019 to 2.46% at 30 June 2020. The decrease was due to the issue of 1,000,000 shares to the Tasmanian Government in January 2020. Further decreases will occur each financial year up to 30 June 2028, subject to the Tasmanian Government meeting its obligations to subscribe to shares in accordance with the Share Subscription and Implementation Agreement.

Councils Investment is not traded in an active market and is only sensitive to fluctuations in the value of TasWater's net assets.

As Council's investment in TasWater is held for long-term strategic purposes, Council has elected under AASB 9: Financial Instruments to irrevocably classify this equity investment as designated as fair value through other comprehensive income. Subsequent changes in fair value on designated investments in equity instruments will be recognised in other comprehensive income and not reclassified through the profit or loss when derecognised. Dividends associated with the equity investments will be recognised in profit and loss when the right of payment has been established and it can be reliably measured.

10. INVESTMENT TERM DEPOSITS

Council holds and will continue to hold monies in a number of term deposits with maturities of greater than twelve months. These investments will be held for the purpose of meeting long term cash commitments.

11. TRUST FUNDS

The financial reports of the Council will incorporate only those items over which the Council has control.

Amounts received as tender deposit and retention amounts controlled by Council will be included in the amount disclosed as creditors with current liabilities until they are refunded or forfeited.

12. EMPLOYEE BENEFITS

I) SHORT TERM OBLIGATIONS

Liabilities for wages and salaries, including non-monetary benefits, annual leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service will be recognised in respect of employees' services up to the end of the reporting period and will be measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave will be recognised in the provision for employee benefits. All other short-term employee benefit obligations will be presented as payables.

II) OTHER LONG TERM EMPLOYEE BENEFIT OBLIGATIONS

The liability for long service leave and annual leave which is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service will be 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 end of the reporting period using the projected unit credit method. Consideration is to be given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments will be discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations will be presented as current liabilities in the statement of financial position if Council does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

III) SICK LEAVE

Council does not recognise a liability for sick leave because such leave is non-vesting and because it is probable that sick leave expected to be taken in future reporting periods will be less than entitlements which are expected to accrue in those periods. Employees receive 10 days sick leave per year.

IV) ROSTERED DAYS OFF

A liability for accrued rostered days off is recognised at the current rates of pay including related oncosts, for expected future payments to be made in respect of accruals by employees of the Council.

13. ACCRUALS/PREPAYMENTS

Accruals and Prepayments will be recognised in accordance with generally accepted accounting practices with materiality a major factor in determining their applicability.

14. NET FAIR VALUES OF FINANCIAL ASSETS & LIABILITIES

Net fair values of financial instruments will be determined on the following basis:

- *Monetary financial assets and liabilities* - carrying amounts of trade debtors, trade creditors and accruals (which approximates net market value).
- *Interest bearing loans* – will be carried at their principal amount, which represents the present value of future cash flows associated servicing the debt. Interest is accrued.

15. SIGNIFICANT BUSINESS ACTIVITIES

The Local Government Act requires the reporting of operating capital and competitive neutrality in respect of each significant business activity undertaken by Council.

Council has determined, based upon an assessment of the activities it undertakes that it has no significant business activities.

16. LEASES

OPERATING LEASES AS LESSEE

Leases, except where the underlying asset is of low value Council will be recognised as a right-of-use asset, representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months.

Council leases several parcels of Crown land under lease agreements with the State Government. These leases, in general, do not reflect commercial arrangements, are long-term and have minimal or no lease payments. Crown land is recognised as an asset in the Statement of Financial Position and carried at fair value when Council establishes that (i) it has control over the land and (ii) it will derive economic benefits from it.

OPERATING LEASES AS LESSOR

Council is a lessor and enters into agreements with a number of lessees. These include commercial and non-commercial agreements.

Where leases are non-commercial agreements, these are generally with not for profit, such as sporting, organisations. In these cases subsidised or peppercorn rents are charged because Council recognises part of its role is community service and community support. In these situations, Council will record lease revenue on an accruals basis and the associated properties as part of land and buildings within property, plant and equipment. Buildings will be recognised at depreciated replacement cost.

Where leases are commercial agreements, but properties leased are part of properties predominantly used by Council for its own purposes, Council will record lease revenue on an accruals basis and will record the associated properties as part of land and buildings within property, plant and equipment. Buildings will be recognised at depreciated replacement cost.

17. TAXATION

Council is exempt from all forms of taxation except Fringe Benefits Tax, Payroll Tax and Goods and Services Tax.

Revenues, expenses and assets will be recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST will be recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables will be stated with the amount of GST included.

The net amount of GST recoverable or payable to the ATO will be included as a current asset or current liability in the statement of financial position.

Cash flows will be included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recovered from, or paid to, the ATO will be classified as operating cash flows.

18. CONTINGENT ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

Contingent assets and contingent liabilities will not be recognised in the Statement of Financial Position, but will be disclosed by way of a note and, if quantifiable, will be measured at nominal value. Contingent assets and liabilities will be presented inclusive of GST receivable or payable respectively.

Commitments will not be recognised in the Statement of Financial Position. Commitments will be disclosed at their nominal value inclusive of the GST payable.