

POLICY TITLE ACCOUNTING POLICY

VERSION III: Adopted 16 December 2020

Last reviewed: 30 November 2020

OBJECTIVES

To provide a framework for those matters that require consideration by Council.
To provide a framework for the operational areas of Council.
To recognise and account for the acquisition of assets.

POLICY STATEMENT**Introduction**

All Managers are accountable for the control of expenditure and income of those budgets that are under their Departmental control. Included in this responsibility is the reporting of variances in the quarterly review process.

Reports to Committees and Council

Unless it has been adopted in Council's Operating Plan there is to be consultation with the General Manager and the Executive Manager Corporate & Customer Service prior to submission of reports to Committees, Council or external bodies where the subject matter involves:

- a) New initiatives, projects or service expansion
- b) External or grant funding where Council is required to also contribute to the funding of the project
- c) Special arrangements or financial support to external organisations
- d) A financial impact on the Budget or Operating Plan

The heading of **Finance and Resourcing** under **Implications** within reports is to be addressed by providing:

- a) The full cost of the proposal in current and future years and in relation to recurrent costs the impact upon future revenue streams.
- b) The source of funds
- c) Where no funds are provided in the current Budget a statement to that effect and the submission to indicate by what means the proposal is to be funded so that the necessary budget adjustments can be made.

Under no circumstance should reports suggest unfunded expenditure or suggest adding to a deficit/reducing a surplus without consultation with the General Manager and the Executive Manager Corporate & Customer Service.

2 Grants

Grants, contributions and donations received by Council will be recognised by Council in accordance with relevant Australian Accounting Standards, including AASB 15 Revenue from Contracts with Customers and AASB 1058 Income for Not-for-Profit Entities.

The following procedures are to be adopted concerning external grants:

a) Grants not included in Original Budget

If application is to be made for a grant that was not included in the original Budget adopted by Council, and the grant requires the allocation of Council funds, a report must be submitted to Council prior to application for the grant, and the report must identify the source of the funding component required to match the grant.

In the event of short notice or tight timeframes (ie insufficient time between notification of the grant opportunity, and the application deadline) to apply for a particular grant, and this precludes the matter going to Council prior to application, approval to apply must be obtained from the General Manager. In these circumstances if approval is given, then the Executive Manager Corporate & Customer Service, must be notified of the application and the amounts involved and the matter must be reported to the next Council Meeting for decision.

b) On receipt of a grant advice

In all circumstances the receipt of the advice of a successful grant application **must, without exception**, be reported to Council for Council's acceptance. Such report must detail the source of and funds required to match or support the grant. Full documentation of the grant must also be forwarded to the Executive Manager Corporate and Customer Service to enable formal processes to occur.

3 Capital Expenditure

Capital expenditure is defined as expenditure, which relates to the acquisition or creation of a non current asset, or expenditure on existing assets which results in:

- a) The extension of the economic life of the asset.
- b) An improvement in the assets revenue capacity or service potential.
- c) Added attributes to the asset, which were not previously, part of the asset, e.g. length, width etc.

4 Capitalisation Thresholds

The threshold for capitalising assets is \$1,000. Whilst small tools under \$1,000 will not be capitalised, a register of items such as chainsaws, mowers, whipper snippers etc, is to be maintained by the Workshop Superintendent.

A separate register is to be maintained by the State Emergency Services. The NSW Rural Fire Services under the Service level Agreement is to maintain a register of all equipment in relation to the brigades and their administrative offices within the fire district. Those items under \$1,000 not capitalised are to be expensed.

If an asset has a value of \$1,000 or over and an economic life that is determined to be longer than one year and the asset will not be technologically obsolete within one year that asset is to be capitalised.

5 Vote Adjustments

All vote adjustments require the approval of Council; the Manager Finance/Senior Finance Officer is responsible for the compilation of the quarterly finance report to Council. The compilation of the report requires input from the respective managers, whose budget line items may require variations.

Requests for vote adjustments requiring Council approval are to be submitted to the Manager Finance/Senior Finance Officer in writing within 7 days of the quarter ending.

6 Carried Forward Expenditure

It is the general practice of Council not to carry forward expenditure items unless:

- i) The expenditure has been committed, through execution of the purchase order, the works are in progress, and there is evidence to substantiate such or goods have been received prior to 30 June.
- ii) The projects are of major asset works and it has already been identified and reported to Council that the works will overlap financial years.

Managers are to identify projects that will not be completed in a financial year, and the amount that will not be spent in the current financial year. These projects and the carry forward component are to be identified in Quarterly Reviews so that the funding can be transferred to a Restricted Asset. These projects and the funding source will then be considered for inclusion in the following year's Operating Plan and Budget.

It should be noted that Revenue Funded items will not be carried forward unless the above criteria has been met. All unexpended votes at year end will lapse.

7 Loan Funds

Loan funds are only to be used for the purpose of funding expenditures where the expected life of the asset created is to be at least the term of the loan repayments. The type of expenditure, which would meet the above criterion:

- a) Major capital works of a bricks and mortar type construction.
- b) Land acquisitions.
- c) Matching RTA grants for roads, bridges and drainage.

Under no circumstances are loan funds to be used for operating or maintenance purposes.

Proposed loan projects in excess of \$500,000 are required to undergo a capital expenditure review in accordance with the Department of Local Governments guidelines. Loan borrowings are determined by the Minister on an annual basis, Council is required to submit a return in April of each year as regards to loan borrowings and a statement of proposed loan borrowings must be included within the Annual Operating Plan, Sec 404 (1) of the Local Government Act 1993.

8 Restricted Assets

Council holds externally and internally Restricted Assets. Externally Restricted Assets are those bound by imposed restriction (eg. Statute), while Internally Restricted Assets are those created for financial prudence. Council's Restricted Assets are to be fully cash funded. The list of Restricted Assets is contained in Council's Accounting Procedures document.

The amounts held within these Restricted Assets will vary over time depending on the utilisation and additions to these assets, and as a result of Council policy.

ACCOUNTING PROCEDURES

Introduction

All Managers are reminded that they are accountable for the control of expenditure, and generation of income in those budgets that are under their Departmental control. Included in this responsibility is the reporting of variances in the quarterly review process.

The purpose of these procedures is to provide all staff with guidelines that will improve their understanding of requirements with regard to standards and methodology to be employed in the accounting practices of Council.

The procedures should ensure:

- a) Consistency in accounting methodology
- b) Accuracy
- c) Policy compliance
- d) Compliance with the Local Government Act 1993, the Local Government (General) Regulation 2005, the Local Government Code of Accounting Practice and Financial Reporting and the Local Government Asset Accounting Manual.
- e) Income and expenditure control
- f) Educational benefits
- g) Transparency

1 Reports to Committees and Council

Unless it has been adopted in Council's Operational Plan, there is a need for both General Manager approval and consultation with the Executive Manager Corporate & Customer Service and the Manager Finance/Senior Finance Officer, prior to submission of reports to Committees, Council or external bodies where the subject matter involves:

- a) New initiatives, projects or service expansion
- b) External or grant funding where Council is required to also contribute to the funding of the project
- c) Special arrangements or financial support to external organisations
- d) A financial impact on the Budget or Operational Plan

The heading of **Finance and Resourcing** under **Implications** within reports is to be addressed by providing:

- a) The full cost of the proposal in current and future years and in relation to recurrent costs the impact upon future revenue streams
- b) The source of funds
- c) Where no funds are provided in the current Budget a statement to that effect and the submission to indicate by what means the proposal is to be funded so that the necessary budget adjustments can be made.

Under no circumstances should reports suggest unfunded expenditure or suggest adding to a deficit or reducing a surplus, without prior consultation with the Executive Manager Corporate & Customer Service and the Manager Finance/Senior Finance Officer.

2 Costing Accuracy

Managers are accountable for job numbers under their control. It is their responsibility to ensure that income and expenditure items are correctly costed, and to verify the accuracy of information contained within their Budget areas.

Under no circumstances are costs to be allocated to accounts or jobs to which they do not relate. Purchase orders must be issued prior to committing Council to an expense, the purchase order must also contain the relevant job costing number, prior to sign off by the appropriate manager.

Expenditure is not to be authorised against any account number unless sufficient funds are available to cover that expenditure. Where additional funds are required, the provision of additional funds is to be dealt with in accordance with the instructions in Section 9.

Random checks of account costings are made by the Executive Manager Corporate & Customer Service to ensure the integrity of the costings.

3 Income Items

In preparation of Budgets, Budget Reviews and for submission of expenditure authorities, Managers are **equally** responsible for income **and** expenditure. Additional income may only be considered for additional expenditure where a nexus can be proved and the income will in fact be generated and received.

The Finance Manager/Senior Finance Officer is responsible for ensuring the monitoring and receipt of grant fund income once the procedures in Section 4 below have been carried out by the Department involved in obtaining or au spacing the grant.

The Finance Manager/Senior Finance Officer is also responsible to ensure that the “actuals” source of funds for any source of funds are apportioned at the Quarterly Review in line with the expenditure actually incurred.

In the determination of income votes, Managers are to ensure that a realistic and conservative approach is applied to the calculation of anticipated income. This will ensure that Council does not authorise expenditure elsewhere in the Budget on the assumption of income which will not be realised.

When calculating the anticipated income for individual areas within the Budget, Managers must ensure that due reference is given to the proposed fees and charges to be adopted for that year. Managers must ensure that the anticipated income predicted in the Budget has a direct relationship with the proposed fees and charges for that area of operation.

Sufficient information is to be provided to the Executive Manager Corporate & Customer Service or the Manager Finance/Senior Finance Officer on request to ensure the achievement of the income is realistic.

4 Grants

Grants, contributions and donations received by Council will be recognised by Council in accordance with relevant Australian Accounting Standards, including AASB 15 Revenue from Contracts with Customers and AASB 1058 Income for Not-for-Profit Entities

The following procedures are to be adopted in regard to the accounting for external grants:

a) Grants not included in Original Budget

If application is to be made for a grant that was not included in the original Budget adopted by Council, and the grant requires the allocation of Council funds, a report must be submitted to Council prior to application for the grant, and the report must identify the source of the funding component required to match the grant.

In the event of short notice or tight timeframes (ie insufficient time between notification of the grant opportunity, and the application deadline) to apply for a particular grant, and this precludes the matter going to Council prior to application, approval to apply must be obtained from the General Manager. In these circumstances if approval is given, then the Executive Manager Corporate & Customer Service, must be notified of the application and the amounts involved and the matter must be reported to the next Council Meeting for decision.

b) Grants included in Original Budget

Application for such grants should be made on a timely basis having regard to the funds allocated in the Budget, the required timing of the works or services to be funded by the grant, and the position of Council's cash flow.

c) On receipt of a grant advice

In all circumstances the receipt of the advice of a successful grant application **must, without exception**, be reported to Council for Council's acceptance. Such report must detail the source of and funds required to match or support the grant. Full documentation of the grant must also be forwarded to the Executive Manager Corporate & Customer Service to enable formal processes to occur.

d) On receipt of grant funds

Grant funds will be credited to an income number as determined by the Manager Finance/Senior Finance Officer. Under no circumstances should grant funds be credited to an expense number (this has the effect of reducing amounts due to both income and expenditure). A copy of any receipt advice should be provided to the Manager Finance/Senior Finance Officer.

e) On completion of projects

Care should be taken to ensure that grants are acquitted as required in the funding agreement. This process should be completed in conjunction with the Manager Finance/Senior Finance Officer to ensure accurate end of year reporting, and compliance with the requirements of Council auditor's.

f) Projects not proceeding

Where a project will not proceed that involves some level of grant funding the Manager Finance/Senior Finance Officer is to be advised so that a decision may be made on the reallocation of the Council funding component of the project.

5 Capital Expenditure

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- a) The extension of the economic life of the asset.
- b) An improvement in the assets revenue capacity or service potential.
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6 Capitalisation Thresholds

The threshold for capitalising assets is \$1,000. Whilst small tools under \$1,000 will not be capitalised, a register of items such as chainsaws, mowers, whipper snippers etc, is to be maintained by the Workshop Superintendent.

A separate register is to be maintained by the State Emergency Services. The NSW Rural Fire Services under the Service level Agreement is to maintain a register of all equipment in relation to the brigades and their administrative offices within the fire district. Those items under \$1,000 not capitalised are to be expensed.

If an asset has a value of \$1,000 or over and an economic life that is determined to be longer than one year and the asset will not be technologically obsolete within one year that asset is to be capitalised.

7 Depreciation

Depreciation is recognised on a straight-line value basis, having regard to residual values. The depreciation rates applying to assets are reviewed by the Manager Finance/Senior Finance

Officer in consultation with the relevant Departments on an annual basis, and amended where necessary.

8 Operational Expenditure

Operational expenditure is defined as all other expenditure other than Capital Expenditure (as defined above) and including, but not limited to wages, salaries, consumables, telephone operating expenses, office sundries, rates, lighting, insurance, etc.

Salaries are not to be costed to an account, which has not been identified and voted to receive salary costings, unless authorised by the Manager Finance/Senior Finance Officer.

Use of Operating Expenditure for Capital Purchases

No Capital Expenditure is to be charged to an operating expenditure account unless it is expenditure on items listed under paragraph 6 Capitalisation Thresholds as being items under \$1,000.

9 Monitoring of Income/Expenditure

All Managers are to constantly review the expenditure and income for the areas for which they are responsible. If incorrect costings are detected, Managers are to submit journal requests to the Manager Finance/Senior Finance Officer as soon as possible. The review document is readily available on the network server for managers to review. (See S:/Public/9.AA-Reviews/Work Files/"Year" Current) e.g. 2021 Current.

At the end of each quarter, the Manager Finance/Senior Finance Officer will provide information to each Department, which will identify the current financial year to date expenditure compared with the total authorised vote for each account number.

Managers are required to analyse the variances and provide explanations for those variances that are significant. This includes situations where expenditure/income is spent/received on a non proportionate basis e.g. spent/received in the first part of the year. Managers are also required to request adjustments to the respective vote allocations to ensure that all current, and anticipated future expenditures will be contained within the total vote allocation.

The following principles will apply to vote adjustments:

- a) All variations will be reported to Council for adoption.
- b) Where the variation will exceed 5% of the adopted budget item a supporting commentary is to be made within the quarterly finance review report to Council.
- c) Where the variation has been reported to Council for adoption as a consequence of Council accepting the financial implications of a report during the financial quarter, a commentary will not be submitted however such is to be referenced by the Minute Number and date of Council meeting where adopted.

If any instance arises where the actual income or expenditure of a particular account number is materially different from its estimated income or expenditure and this variance could have an effect on Council's overall financial position, the matter must be brought to the immediate attention of the Executive Manager Corporate & Customer Service or the Manager Finance/Senior Finance Officer.

No votes will be amended until the Council, has authorised the variation. Vote amendments will be adjusted on the spreadsheet after the adoption by Council of the quarterly review by the Manager Finance/Senior Finance Officer.

Where a Manager seeks to reallocate funding approvals of the Council, the Manager must prepare a report for Council and obtain the Councils' approval for the re-allocation of resources
Dungog Shire Council Policy No C2:1

before commencement of the project. In the case of emergencies, the matter should be brought to the General Managers attention for notification the Mayor as soon as practicable, and a report should be submitted to the next meeting of Council.

10 Carried Forward Expenditure

It is the general practice of Council not to carry forward expenditure items unless:

- i) The expenditure has been committed, through execution of the purchase order, the works are in progress, and there is evidence to substantiate such or goods have been received prior to 30 June.
- ii) The projects are of major asset works, and have already been identified and reported to Council on the basis that the works will overlap financial years.

Managers are to identify projects that will not be completed in a financial year, and the amount that will not be spent in the current financial year. These projects and the carry forward component are to be identified in Quarterly Reviews so that the funding can be transferred to a Restricted Asset. These projects and the funding source will then be considered for inclusion in the following year's Operating Plan and Budget.

It should be noted that Revenue Funded items will not be carried forward unless the above criteria has been met. All unexpended votes at year-end will lapse.

11 Loan Funds

Loan funds are only to be used for the purpose of funding expenditures where the expected life of the asset created is to be at least the term of the loan repayments. The type of expenditure, which would meet the above criterion:

- a) Major capital works of a bricks and mortar type construction.
- b) Land acquisitions.
- c) Matching RTA grants for roads, bridges and drainage.

Under no circumstances are loan funds to be used for operating or maintenance purposes.

All borrowings that exceed \$500,000 will require a capital expenditure review in accordance with the Department of Local Governments guidelines. Loan borrowing limits are determined by the Minister on an annual basis, Council is required to submit a borrowing return in April of each year. The borrowing determinations are then handed down by the Minister in late July, following analysis by the Department on the overall global borrowing limit for Government.

When loan borrowings are raised, the Department must be notified within 7 days of the loan raising.

In necessitous circumstances, Council may make an application to the Department for additional loan borrowings, however availability of funding will be dependent upon the utilisation levels of the Global Borrowing limit for local government.

12 Restricted Assets

Council holds externally and internally Restricted Assets. Externally Restricted Assets are those bound by imposed restriction (eg. Statute or Grant conditions), while Internally Restricted Assets are those created for financial prudence. Council's Restricted Assets are to be fully cash funded.

The current list of Council's Restricted Assets is as follows:

General Fund & Domestic Waste Management

External Restrictions

- Specific Purpose Unexpended Loans
- RTA Advances
- Developer Contributions Section 711
- Specific Purpose Unexpended Grants
- Domestic Waste Management Surplus
- Caravan Parks Reserve
- Contributions to Works

Internal Restrictions

- Employee Leave Entitlements
- Plant Replacement
- Shire Property
- Alison Court
- Waste Management Site Rehabilitation
- Special Projects
- Quarry Rehabilitation
- Bennett Park Lighting
- Community Land Transactions

The amounts held within these Restricted Assets will vary over time depending on the utilisation and additions to these assets and as a result of Council policy.

Date Policy Adopted	Minute No	Authority
18 February 2003	31343	Council resolution
19 August 2003	31593	Council resolution
16 December 2020	2020/283	Council resolution