COUNCIL POLICY – Asset Accounting Policy	
Reference Number	702005
Responsible Business Unit	Finance
Responsible Officer	General Manager Corporate Services
Legislation	Local Government Act 1999 Local Government (Financial Management) Regulations 2011 Australian Standards –: AASB 13 Fair Value Measurement AASB 116 Property Plant and Equipment AASB 136 Impairment of Assets AASB 138 Intangible Assets AASB 140 Investment Property AASB 5 Non-Current Assets Held for Sale and Discontinued Operations AASB 1051 Land Under Roads
Relevant Delegations	Chief Executive Officer General Manager Corporate Services
Related Policies Management Guidelines Frameworks	Financial Sustainability Policy CP-012 Asset Management Policy 685098 Asset Disposal Policy
Link to Strategic Plan	Objective 4.4 - Develop a sustainable organisation
Council resolution	72.2
Date Adopted	11 May 2020
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Previous Revisions	14 August 2017 item 137.1 Item 220.1 – 14 September 2015 Asset Accounting Policy-8 September 2014 Item 229.2 – 30 September 2013 Asset Accounting Policy CP-014 30 Sep 2013 Asset Account Policy – Internal Aug 2008

POLICY STATEMENT

Assets are to be recognised and accounted for in accordance with Australian Accounting Standards. There are three specific elements that define an asset:

1. *Future economic benefits* – in the case of public sector entities, future economic benefits (or service potential) are the goods and services to be provided by the asset, whether or not the entity receives a net cash inflow for their provision.
2. *Control by the entity* – control means the ability of the entity to benefit from the future economic benefits or to restrict the access of others to those benefits.
3. *Occurrence of past event* – the asset must be in existence. A contract to purchase an asset does not give rise to an asset, nor does the intent to acquire an asset.

Recognition of an Asset

"An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably." [1]

Initial Recognition

The basis for measurement of the value of an asset, upon recognition, is its cost. "*An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.*" [2] Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition and all other costs incurred in getting the asset ready for use.

Where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition. The cost of assets constructed by Council shall include the cost of all materials used in construction, direct labor employed and an appropriate proportion of variable and fixed overheads.

Council has elected not to recognise land under roads in accordance with AASB 1051 Land Under Roads as no reliable method to value the land is able to be determined.

Materiality

The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

When determining whether expenditure needs to be capitalised, both the nature and the materiality thresholds needs to be considered. Assets with a useful life less than 12 months will **not** be capitalised.

Where the value of individual assets fall below the capitalisation threshold but the asset forms part of a network or asset group, such as park furniture on a reserve, consideration will be given to capitalising the individual asset based on whether the aggregate value of those assets exceeds the capitalisation threshold.

Assets will be grouped if the items being considered are below the recognition threshold level on an individual basis yet considered material as a whole; the individual items are homogenous in nature and typically purchased rather than constructed and the useful lives and consumption patterns of individual items are approximately the same. All signs will be grouped (or pooled) for capitalisation.

Assets to be considered will be referred to the General Manager Corporate Services for determination.

[1] Paragraph 89 of the "Framework for the Preparation and Presentation of Financial Statements"
– Model Financial Statements, SA Local Government Financial Management Group

[2] Australian Accounting Standard AASB 116 – Property Plant and Equipment, paragraph 15

Subsequent Measurement
When an asset is recognised, its value can be accounted for either by the *cost model* or the *revaluation model*. The revaluation model recognises assets at their fair value only if that can be measured reliably. If an asset is revalued, its value is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

For infrastructure and other asset classes where no active market exists, fair value is determined using the current replacement cost (CRC) of an asset. The carrying amount is calculated as CRC less accumulated depreciation and expected costs that will be incurred by Council at the end of an assets useful life in order to maintain the service provided by that asset.

Land held for development and/or resale is valued at the lower of cost and net realisable value. Costs include:

- the cost of acquisition, development and interest incurred on financing of that land during its development
- interest and other holding charges incurred after development is complete are recognised immediately as expenses
- land held for redevelopment as community facilities is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition and development.

Depreciation of Assets
Two definitions are useful to understand the concepts of depreciation. They are:

1. *"Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life."*
2. *Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value."*[3]

All non-current assets have a limited useful life. The depreciable amount of all non-current assets, excluding freehold land is systematically depreciated over their useful lives to reflect the consumption of the economic benefits provided by those assets. Land is not a depreciable asset.

Depreciation of an asset begins when it is available for use i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management and ends when it is classified as held for sale or when derecognised.

The depreciation method applied shall be as prescribed in the relevant approved Asset Management Plan or in the absence thereof, will be the straight line basis and use the standard estimates for useful lives. In the instance of the Infrastructure asset class, the depreciation method used in Consumption Based Depreciation.

The actual useful life and therefore depreciation rates may be varied for specific assets where asset quality and environmental and/or operational conditions so warrant. Depreciation rates shall be reviewed each year.

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[3] Australian Accounting Standard AASB 116 – Property Plant and Equipment

Useful lives and residual values are to be assessed and revised in conjunction with asset revaluations.

Investment Property
An Investment property is defined and property held by a lessee to earn rentals or for capital appreciation or both[4]. Council will initially record investment property at cost. After this the revaluation model will be adopted as the accounting treatment in line with the treatment outlined in *AASB 140 Investment Property*.

Any gain or loss arising from a change in the fair value will be recorded as a gain/ (loss) in the profit and loss NOT through the valuation reserve.

Assets Held for Sale
Per AASB 5 a non-current asset shall be classified as held for sale if its carrying amount will be recoverable principally through a sale transaction rather than through continuing use[5]. To recognise an asset held for sale the sale must be highly probable and the asset must be available for sale in its present condition.

The asset held for sale is to be measured at the lower of carrying value and fair value less cost to sell. Once an asset has been classified as held for sale it is NOT to be depreciated

Impairment of Assets
Intangible Assets that have an indefinite useful life are not subject to depreciation and will be reviewed annually for impairment.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

These impairment indicators include internal and external sources of information, such as:

- an assets market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- significant changes with an adverse effect on the Council have taken place during the period in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased which may affect the discount rate used in calculation the assets value;
- the carrying amount of the asset is above the market capitalisation;
- evidence is available of obsolescence or physical damage of an asset;
- significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite

An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount in accordance with AASB 136. The recoverable value of an asset is the higher of the fair value less cost to sell and its value in use.

[4] AASB 140 Investment Property
[5] AASB 5 Non-Current Assets Held for Sale and Discontinued Operations

Any loss will be recognised in profit and loss **unless** it relates to a previously revalued assets and in which case the impairment will be offset against the revaluation reserve[6].

The impairment analysis should be presented to the Council **annually.**

Disposal or Sale of Assets
The disposal or sale of Council assets must be made in accordance with Council's "Asset Disposal Policy".

When an asset is sold, its selling price often varies from the carrying amount in Council's Balance Sheet. The variation will be recorded in the Council's Statement of Comprehensive Income as a gain or loss on disposal in accordance with AASB 116. If an asset is scrapped before it is fully depreciated, the carrying amount will represent a loss on disposal and will be expensed.

OBJECTIVES

Council is responsible for providing and maintaining assets for the benefit of the Community. In order to manage these assets in a financially responsible manner, financial information must be presented in a manner that is useful to decision making. The objective of this policy is to provide guidance, clarity and consistency regarding the treatment of capital expenditure, which will provide greater understanding and accuracy of Council's accounting for assets.

This policy aims to ensure Council's accounting records, accounts and financial statements are prepared and maintained in accordance with all relevant legislation including the Australian Accounting Standards and the Local Government Act and Regulations.

The existence of this policy will assist to ensure there is a distinction between expenditure on long-lived assets and expenditure on goods and services for immediate consumption. This is critically important in determining the cost of providing services.

SCOPE

This policy includes the accounting treatment of all Council's non-current assets.

PRINCIPLES

As per Council's Financial Sustainability Policy, financial sustainability is achieved when service and infrastructure levels and standards are delivered according to a long- term plan without the need to significantly increase rates or significantly reduce services.

Responsible long-term financial sustainability includes ensuring:

- Funding is made available for the maintenance, replacement and upgrade of assets to meet community expectations
- Consistent delivery of essential community services and the efficient development of infrastructure
- Maintenance of community assets so that the cost does not become a burden for future ratepayers.

[6] AASB 136 Paragraph 60 and AASB116 Para 40

IMPLEMENTATION

The materiality levels for capitalisation of assets are:

Land	$1
Buildings	$10,000
Infrastructure	$10,000
Plant & Vehicles	$5,000
Furniture & Fittings	$5,000
Equipment	$5,000
Other – Artworks	$5,000

Acquisition costs of assets with less than these values above will be treated as operating expenses unless they are deemed by their nature to be required to be capitalised. Separate registers of attractive assets are kept within operational units for tracking and reference purposes.

The useful lives by asset category are:

Buildings – Structure	10 to 150 years
Buildings – Other	15 to 90 years
Infrastructure	5 to 100 years
Plant & Vehicles	2 to 20 years
Furniture & Fittings	1 to 100 years
Equipment	2 to 60 years
Other – Artworks/Library Books	7 to 100 years

Subsequent Measurement Method:

Buildings	Revaluation Model
Land	Revaluation Model
Infrastructure	Revaluation Model
Equipment	Cost Model
Plant and Vehicles	Cost Model
Furniture and Fittings	Cost Model
Other-Artwork	Cost Model

In accordance with regulation 12 of the Local Government (Financial Management) Regulation 2011 'A council, council subsidiary or regional subsidiary must undertake a revaluation of all material non-current assets in accordance with the written down value requirements of Australian Accounting Standard AASB 116, Property Plan and Equipment and Australian Accounting Standard AASB13 Fair Value Measurement.

The revaluation of Buildings, Land and Infrastructure will be undertaken using the current replacement cost approach which reflects the amount that would be required currently to replace the service capacity of the asset (the replacement cost) as defined in AASB13.

The RCMB have determined that any Asset Class above $10 million is classified as material and therefore subject to valuation.

All asset classes accounted for under the revaluation model will be revalued on a regular basis such that carrying values are not materially different from fair value in accordance with Australian Accounting Standards and Regulations under the Local Government Act 1999. Valuations are to be done at a minimum every 5 years. The frequency of revaluation is dependent on the nature of the asset class and the volatility of the fair value.

DEFINITIONS

Accumulated Depreciation – is the total of the entire annual depreciable amount that has been applied to the asset since the asset has been used by the entity.

Asset – resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Capital Expenditure – Capital expenditure can be broken down into three categories:

1. Costs incurred in the creation of a new asset – including design costs, planning and development compliance costs and construction costs.
2. Costs incurred for replacement, renewal or repair of an existing asset – these costs can be considered capital when they are incurred to continue provide services at the same level on a like for like basis. The costs may also extend the useful life of an asset.
3. Costs incurred to upgrade an asset which results in a higher (improved) level of service than previously offered. As distinct from a new asset where the service currently exists.

Carrying Value – The carrying value of an asset is the value of the asset held on Council's balance sheet after deducting any accumulated depreciation and accumulated impairment losses. This is also known as the "Written Down Value" or "Carrying Amount".

Cost – The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

Current Asset – Assets that have an economic life less than one year and therefore are not depreciated but expensed within the financial accounting period.

Current Replacement Cost (CRC) – The CRC of an asset is the cost that would be incurred by acquiring that asset at the time of reporting.

Depreciation - Depreciation is the mechanism by which the carrying value of an asset is expensed over its useful life. It represents the amount by which Council's assets are being consumed annually.

Depreciable Amount - the cost of an asset or other amount substituted for cost, less its residual value.

Fair Value – Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between ? participants at the measurement date.

Future Economic Benefit – Future economic benefits (or service potential) are the goods and services to be provided by the asset, whether or not the entity receives a net cash inflow for their provision

Maintenance – Maintenance of an asset is periodic expenditure required to ensure that the asset lasts as long as it is expected to last (useful life) and that it provides and continues to provide future economic benefits. Maintenance can also include expenditure on non-current assets that do not meet the capitalisation criteria. Maintenance costs are expensed annually as they are incurred.

Non-current Asset – Assets that have an economic life greater than one year and are capitalised where the cost of acquisition exceeds materiality thresholds.

Residual Value – The residual value of an asset is the estimated amount that an entity would obtain from the disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful Life - The useful life is, the period over which an asset is expected to be available for use.

Value in Use (VIU) [Not for Profit Entities] - VIU is the depreciated replacement cost where the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash inflows i.e. the asset is retained by the entity for reasons other than its ability to generate cash.