

ASSET ACCOUNTING POLICY

Type	Governance
Category	Finance
Responsible Officer	Manager Corporate Services
First Issued / Adopted	Pre 2009 (Asset Management Policy)
Review Period	2 Years
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Applicable Legislation	Australian Accounting Standards Board Standards (AASB) Local Government Act 1999 Local Government (Financial Management) Regulations 2011
Related Documents	Nil
Public Consultation Required	No
File Reference	9.63.1.4

1. PURPOSE

To set out when expenses are to be capitalised and the accounting treatment of Non-current assets.

2. SCOPE

Port Pirie Regional Council (Council) is committed to the accurate and timely recording and reporting of its non-current assets. This Policy is to:

- 2.1. Ensure that Council's accounting records, accounts and financial statements are prepared and maintained in accordance with Australian Accounting Standards and all relevant legislation.
- 2.2. Provide a source of financial information on Council's assets for audit and management reporting purposes.
- 2.3. Provide information concerning the accounting treatment of non-current assets.
- 2.4. Provide a basis for the Council's accountability to the community for its investment in assets.

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2. SCOPE (Cont'd)

References used in the development of this Policy:

AASB 5 Non-current Assets Held for Sale

AASB 13 Fair Value Measurement

AASB 116 Property, Plant & Equipment

AASB 136 Impairment of Assets

AASB 1041 Revaluation of Non-current Assets

AASB 1051 Land under Roads

3. DEFINITIONS

An **Asset** is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. The three elements defining an asset are:

- 3.1. future economic benefits (goods and services provided by the asset);
- 3.2. control by the entity (ability of entity to benefit from future economic benefits); and
- 3.3. occurrence of a past event (asset must be in existence).

Accumulated Depreciation is the total of all the annual depreciation that has been applied to the asset to reflect the amount of use or consumption of an asset.

Capital New/Upgrade is a new asset or upgrading of an existing asset thereby providing a higher level of service (e.g. sealing an unsealed road; upgrading a stormwater pipe with a larger size).

Capital Renewal/Replacement is renewing or replacement of an existing asset give a new asset with a new useful life without enhancement of the service capability except where this is incidental or unavoidable (e.g. resealing, re-sheeting an unsealed road).

Carrying Amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

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

Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where there is a reliable market this will equal the carrying amount and where there is no reliable market, the depreciated current replacement cost of an asset will be used.

Impairment is the decline in the future economic benefits or service potential of an asset, over and above the use reflected through depreciation.

Maintenance is recurrent operating expenditure which is regularly or periodically required to ensure that the asset achieves its current useful life and provides the required level of service. It includes both reactive maintenance and planned maintenance programs and non-capitalised minor equipment purchases which are anticipated in determining the useful life of an asset.

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3. DEFINITIONS (Cont'd)

Replacement Cost is the current cost to replace an item of property, plant and equipment on a like for like basis.

Residual Value of an asset is the estimated amount that an entity would currently obtain from disposal of the 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. It is only used for accounting purposes in the estimation of the Depreciable Amount.

Useful Life is the period for which an asset is expected to be available for use by an entity.

Value in Use is the present value of the future cash flows expected to be derived from an asset over its useful life.

4. POLICY STATEMENT

4.1. Asset Recognition

Capital expenses are recognised as a Non-current asset in the Statement of Financial Position when it is probable that there will be future economic benefits to the entity and the asset has a cost or value that can be measured reliably. All non-current assets purchased or constructed will be capitalised as the expenditure is incurred and depreciated as soon as the asset is held "ready for use".

All assets will be initially recognised at cost. Where an asset is acquired at no or nominal cost, such as a asset gifted to Council it will be recognised at its fair value as at the date of acquisition.

Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects fees and engineering design fees and all other costs incurred. 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.

Council has elected not to recognise land under roads as it is of the opinion that it is not possible to attribute a value sufficiently reliable to qualify for recognition. Land acquired for road purposes during the year will be initially recognised at cost, but transferred to fair value at reporting date, effectively writing off the expenditure.

Assets with an economic life in excess of one year will be capitalised where the cost of acquisition exceeds the following materiality thresholds:

Asset type	Value
Land Acquisitions	No Limit
Buildings, Structures and Site Improvements	\$ 5,000
Road Infrastructure	\$10,000
Stormwater Drainage and CWMS	\$ 5,000
Plant, Machinery and Fleet	\$ 5,000
Minor Plant and Loose Tools	\$ 2,000
Office Furniture and Equipment	\$ 2,000

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4. POLICY STATEMENT (Cont'd)

4.1. Asset Recognition (Cont'd)

Individual assets that are less than threshold value may be capitalised as a group asset, whereby the total value of the group of items exceeds threshold levels (e.g. park furniture, office chairs). All other expenses will be treated as operational.

Materiality threshold values will be reviewed annually by the Audit & Risk Management Committee when reviewing the draft Annual Financial Statements and as part of each asset re-valuation, then referred to Council for consideration.

Assets specifically excluded from capitalisation include signage, trees, land under roads and library books.

4.2 Asset Classes

Assets are required to be classified into classes. Council has nominated the following classes for its non-current assets:

Class	Assets Included
Land	Land
Buildings	Floor, walls, roof, services, fittings (from 1 July 2017)
Structures/Site Improvements	Monuments, shelters, playgrounds, irrigation, furniture, BBQ's, walkways, fencing, jetties, boat ramps, pontoons
Roads	Sealed, unsealed, seals, pavements, ancillary
Kerbing	Kerbing and water table
Footpaths	Footpaths, bikeways and pram ramps
Bridges	Bridges
Stormwater Drainage	Pipes, pits, basins, lagoons, pollutant traps, culverts
CWMS	Pipes, pits, pump stations, treatment plants
Signs/Traffic/Spoondrains	Signs, roundabouts, medians, spoondrains,
Plant/Equipment	Major plant, fleet, IT, general equipment
Furniture/Fittings	Office furniture, fittings (up to 30 June 2017)

The Council will maintain an Asset Register using the Asset Classes as described in this policy.

4.3 Asset Depreciation

Other than land, all recognised assets will be depreciated over their useful lives to reflect the consumption of the service potential embodied in those assets.

Useful lives are estimated for each individual asset. In estimating useful lives, regard is given to technical and commercial obsolescence, as well as legal and other limitations on continual use.

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4. POLICY STATEMENT (Cont'd)

4.3 Asset Depreciation (Cont'd)

Depreciation is recognised on a straight line basis. The periods of depreciation for building and infrastructure assets are estimated based on industry standards and consultancy advice. Depreciation rates may be varied for specific assets where asset quality, environmental and/or operational conditions reflect a need for specific treatment.

Depreciation methods, useful lives and residual values for each class of asset will be reviewed by the Audit & Risk Management Committee as part of each asset revaluation and then referred to Council for consideration.

Assets that are deemed to have an indefinite useful life are not subject to depreciation.

4.4 Asset Impairment

Impairment is the decline in the future economic benefits or service potential of an asset, over and above the use reflected through depreciation (e.g. a Council asset is damaged in a natural disaster and its carrying value is no longer valid).

Assets that are not subject to depreciation are 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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use).

For assets whose future economic benefits are not dependent on the ability to generate cash flows, and where the future economic benefits would be replaced if Council were deprived thereof, the value in use is the depreciated replacement cost. In assessing impairment for these assets, a rebuttable assumption is made that the current replacement cost exceeds the original cost of acquisition.

4.5 Asset Revaluation

Revaluations of non-current assets are required to be undertaken with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from that which would be determined using fair value at the reporting date.

Revaluations will include review and application of current condition assessment, unit rates, useful lives and residual lives to determine the total current replacement cost and the accumulated depreciation to the date of revaluation.

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4. POLICY STATEMENT (Cont'd)**4.5 Asset Revaluation (Cont'd)****4.5.1 Measurement Units**

All assets within an asset class are to be revalued at the same time. Council has nominated the following valuation measurement units and materiality of each asset class:

Asset Class	Measurement Unit	Materiality
Land	Fair Value	Major
Buildings	Replacement Cost	Major
Structures/Site Improvements	Replacement Cost	Major
Roads	Replacement Cost	Major
Kerbing	Replacement Cost	Major
Footpaths	Replacement Cost	Minor
Bridges	Replacement Cost	Minor
Stormwater Drainage	Replacement Cost	Major
CWMS	Replacement Cost	Minor
Signs/Traffic/Spoondrains	Replacement Cost	Minor
Plant/Equipment	Cost	Minor
Furniture/Fittings	Cost	Minor

4.5.2 Frequency of Revaluations

Determining the frequency of valuations depends on striking a balance between having relevant, timely information and the cost of obtaining such information. Therefore it is appropriate to provide for periodic comprehensive revaluations with interim revaluations based on specific indices.

A comprehensive revaluation will be completed every three to five years and a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and revaluations are kept up to date.

Council will conduct periodic revaluations on the following basis:

- Land and Buildings to be revalued by external valuers at intervals of no more than four years;
- Infrastructure to be revalued by internal staff and signed off by an external valuer at intervals of no more than four years;

Plant, equipment, furniture and fittings assets are not to be subject to revaluation, as they have relatively short useful lives. These assets will be held at historical cost.

The revaluation program will be reviewed annually by the Asset Management Committee and the Audit & Risk Management Committee.

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4. POLICY STATEMENT (Cont'd)

4.5 Asset Revaluation (Cont'd)

4.5.3 Interim Revaluations

To maintain the value of assets in current terms, interim revaluations of major classes of assets will be performed on an annual or biennial basis to minimise the impact of periodical revaluation. If there is evidence of a material change between scheduled revaluations, revaluations will be performed to ensure that valuations are kept up to date.

Interim valuations will be conducted by an independent valuer, or be prepared by Council using an appropriate indexation method and qualified by an independent valuer. Interim revaluations will not require condition assessment.

4.5.4 Disclosure of Revaluations

The following disclosures will be made in the Annual Financial Statements in respect of asset revaluations:

- the net amount of revaluation increments less decrements for each class of assets;
- the date of the last comprehensive valuation;
- whether that valuation was made internally or by an independent external party;
- the method and significant assumptions underlying the valuation; and
- details of the basis on which interim revaluations are made.

4.5.5 Fair Measurement Valuation

Upon revaluation, the current new replacement cost and accumulated depreciation are re-stated such that the difference represents the fair value of the asset determined in accordance with Fair Value Measurement: accumulated depreciation is taken to be the difference between current new replacement cost and fair value. In the case of land, fair value is taken to be the current replacement cost.

Highest and Best Use:

For land which Council has an unfettered right to sell, the “highest and best use” recognises the possibility of the demolition or substantial modification of some or all of the existing buildings and structures affixed to the land.

Much of the land under Council’s care and control is Crown land or has been declared as Community Land under the provisions of the Local Government Act 1999. Other types of restrictions also exist.

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4. POLICY STATEMENT (Cont'd)**4.5 Asset Revaluation (Cont'd)****4.5.5 Fair Measurement Valuation (Cont'd)**Highest and Best Use: (Cont'd)

For land subject to these restrictions, the highest and best use is taken to be the "highest and best use" available to Council, with a rebuttable presumption that the current use is the "highest and best use". The reason for the current use of a large proportion of Council's assets being other than the "highest and best use" relates to Council's principal role as the provider of services to the community, rather than the use of those assets for the generation of revenue.

For buildings and other structures on and in the land, including infrastructure, "highest and best use" is determined in accordance with the land on and in which they are situated.

Fair Value Measurement:

The requirements of Fair Value Measurement have been applied to as shown below.

Fair value hierarchy level 2 valuations: Certain land, and the buildings and structures thereon, are shown above as being based on fair value hierarchy level 2 valuation inputs. They are based on prices for similar assets in an active market, with directly or indirectly observable adjustments for specific advantages or disadvantages attaching to the particular asset.

Fair value hierarchy level 3 valuations of land: Valuations of Crown land, community land and land subject to other restrictions on use or disposal, shown above as being based on fair value hierarchy level 3 valuation inputs, are based on prices for similar assets in an active market, but include adjustments for specific advantages or disadvantages attaching to the particular asset that are not directly or indirectly observable in that market, or the number and / or amount of observable adjustments of which are so great that the valuation is more fairly described as being based on level 3 valuation inputs.

Fair value hierarchy level 3 valuations of buildings, infrastructure and other assets: There is no known market for these assets and they are valued at depreciated current replacement cost.

This method involves:

- The determination of the cost to construct the asset (or its modern engineering equivalent) using current prices for materials and labour, the quantities of each being estimated based on recent experience of this or similar Councils, or on industry construction guides where these are more appropriate.

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4. POLICY STATEMENT (Cont'd)

4.5 Asset Revaluation (Cont'd)

4.5.5 Fair Measurement Valuation (Cont'd)

This method involves: (Cont'd)

- The calculation of the depreciation that would have accumulated since original construction using current estimates of residual value and useful life under the prime cost depreciation method adopted by Council.

This method has significant inherent uncertainties, relying on estimates of quantities of materials and labour, residual values and useful lives, and the possibility of changes in prices for materials and labour, and the potential for development of more efficient construction techniques.

4.6 Asset Derecognition

When it is deemed that there is no future economic benefit expected for the use or disposal of an item it shall be derecognised and remove from the asset register. The accounting treatment gain or loss shall be included in the Comprehensive Income Statement.

An item should be derecognised when any of the following circumstances arises:

- The item is sold, lost or stolen, destroyed as a result of a natural disaster or scrapped, retired or abandoned and re moved from service,
- A significant component or item is replaced as a result of major renewal works,
- Control of an asset is transferred to another entity via legislation, Council policy, formal agreement or other means. This must be evidenced with clear documentation.

4.7 Asset Register

All capitalised expenses will be recorded in an Asset Register so that each item is properly identified according to the specific asset class and group and for each asset its total life, remaining useful life and method of depreciation.

The asset register for Infrastructure, Property, Plant and Equipment will maintain details of Fair/Replacement/Historical Value, Accumulated Depreciation and Carrying Amount for each asset and asset class, along with historical information relating to revaluation and impairment and be updated on an annual basis.

The asset register will be used to ensure that Council has adequate security arrangements and insurance cover to ensure fixed assets are protected from destruction, deterioration, theft, fraudulent or illegal use.

A register of attractive portable items shall be maintained for the purpose of controlling and safeguarding these items given their portability and high risk of loss. These items include computer and communication equipment which may not be capitalised, but are included in the insurance register.

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4. POLICY STATEMENT (Cont'd)

4.8 Financial Indicators

The Local Government (Financial Management) Regulations 2011 require Councils to report on three financial indicators to evaluate their financial performance from the information provided in the annual financial statements. The Asset Renewal Funding Ratio provides a measure of effective asset management as follows.

The Asset Renewal Funding Ratio is a measure of capital expenditure on the renewal or replacement of existing depreciable assets divided by the planned renewal capital program as contained in the adopted Asset Management Plan/s. This ratio indicates if the assets are being replaced according to the agreed asset management projections of consumption of use of the asset at the desirable service level.

Each time the Council reviews and updates the Long Term Financial Plan, develops the Business Plan and reviews the Annual Budget, the impact on the Asset Renewal Funding Ratio is considered.

Council sets a target range in the Long Term Financial Plan to guide the future planning. Council acknowledges that the ratio may fall outside of the target range during some periods and should be assessed on average over a three or more year period.

5. FURTHER INFORMATION

This policy will be available to be downloaded, free of charge, from Council's internet site: www.pirie.sa.gov.au

Copies will be provided to interested parties upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

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