Council Policy

ASSET ACCOUNTING POLICY

PURPOSE

The aim of this policy is to contribute to the better management of Council assets by providing guidance for capitalisation, depreciation, valuations and other financial accounting practices in accordance with Australian Accounting Standards, particularly AASB116 and AASB13.

This policy addresses the accounting treatment of non-current assets that provide future economic benefit to the Colac Otway Shire Council and the community in a consistent, state-wide, reporting standard.

SCOPE

This policy provides a framework to align engineering and accounting perspectives with service delivery and reporting requirements.

This policy includes the accounting treatment of all Council's non-current physical assets including, but not limited to: roads, buildings, land, fleet and artwork. As of 1 July 2008, Council elected not to recognise the value of land under road reserves acquired before the commencement of AASB1051 Land Under Roads. Only that which was received post-2008 is recognised.

Australian Accounting Standards require a distinction to be made between expenditure that is consumed immediately in operations (or within one financial year) and expenditure on physical assets that will provide service over more than one financial year.

Typical non-current physical assets managed by Council include: roads, bridges, footpaths, drains, reserves and buildings used by the community.

The recording of expenditure on an asset means that it is recorded in the Council's balance sheet and the details are entered into the corporate asset register. Such expenditure on assets is referred to as capital expenditure.

Importantly, capital expenditure is divided between renewal, upgrade, expansion and new expenditure classifications. This distinction provides information to assist the organisation to determine whether it is maintaining assets sustainably.

DEFINITIONS

AASB - Australian Accounting Standards Board is the entity that reviews and provides the standards to which Australian companies must meet in providing General Purpose Financial Statements
Asset - An asset is a resource with economic value that can be measured reliably that is owned or controlled by Council with the expectation that it will provide future economic benefits.
Asset Class - Assets similar in nature and characteristics. They are revalued simultaneously to avoid ambiguity in the reporting of values in the financial statements.
Capitalisation Threshold - The amount at which items of expenditure will be recognised as assets in Council's balance sheet.
Collective Assets - Certain assets that are made up of collections of many individual items, each of which is individually below any reasonable capitalisation threshold, similar to network assets.
Depreciation - The systematic allocation of the depreciable amount of an asset over its useful life to reflect the remaining service potential.
Expense - When expenditure produces no future economic benefits (an asset) or when, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.
Network Assets - Assets which form part of a network that, depending on individual size, could fall below any reasonable capitalisation threshold such as kerbs, footpaths or drainage
VAGO - Victorian Auditor-General's Office plays a key role in preserving the financial integrity of the state's system of government. Who plan and conduct audits, oversee the work undertaken by contracted audit service providers.

REFERENCES

State Government Legislation

- Local Government Act 2020

Australian Accounting Standards

- AASB 5 – Non-current Assets held for Sale and Discontinued Operations
- AASB 13 – Fair Value Measurement
- AASB 101 – Presentation of Financial Statements
- AASB 116 – Property, Plant and Equipment
- AASB 117 – Leases
- AASB 136 – Impairment of Assets
- AASB 138 – Intangible Assets
- AASB 108 – Accounting Policies, Change in Accounting Estimates and Errors

Council Documents

- Asset Management Policy
- Asset Accounting Procedures
- Asset Management Plans

STATEMENT OF POLICY

This Policy and associated procedures aim to provide guidance, clarity, consistency and clear directions to management, staff and Council in relation to the accounting treatments used to report on the construction and management of Council's assets and accounting practices that:

- Ensures that Council's recording of financial transactions; are in accordance with its legislative and common law responsibilities; and
- Provides accurate and reliable information to all users.

Recognition

Expenditure Definitions

Operating expenditure
These costs are the day-to-day expenses associated with providing the service during a year of operations. It may include expenditure such as power, fuel, telephone, employee costs, materials, cleaning, minor equipment, overheads, materials and depreciation. When compared to the income over the same period a surplus or deficit can be calculated.

Maintenance expenditure
A component of operating expenditure, specifically on an asset, which is periodically required as part of the anticipated schedule of works needed to ensure that the asset achieves its estimated useful life, and is normally relatively low cost compared to the asset value. Maintenance expenditure includes reactive maintenance and repairs such as pothole patching, blocked drains, repairs to broken fixtures; or planned maintenance which occurs on a schedule: painting a building every 5 years, annual servicing of equipment.

Capital Expenditure
Is generally but not always large (material) expenditure, which has benefits (service potential), expected to last for more than 12 months. In addition to new assets capital expenditure includes renewal/replacement and expansion/upgrade of existing assets.

> **Capital Renewal** is expenditure on an existing asset, which restores the service potential and extends the life of the asset beyond that which it had originally. As it extends the life of the asset any income generated from it will likewise be extended. Future operating and maintenance expenditure may be reduced if completed at the optimum time, e.g., resurfacing or re-sheeting part of a road network, replacing a section of a drainage network with pipes of the same capacity, resurfacing an oval.
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> **Capital Upgrade** is expenditure, which enhances an existing asset to provide a higher level of service. This is discretionary and although may not result in additional revenue unless direct user charges apply, it will increase operating and maintenance expenditure, including depreciation, in the future because of the increase in the council's asset base, e.g., widening the sealed area of an existing road, replacing drainage pipes with pipes of a greater capacity, enlarging a grandstand at a sporting facility, building extension etc.
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> **Capital New** involve the creation of new assets to meet additional service level requirements, e.g., new building for a new service. This results in an increase of the asset base and additional future operating and maintenance costs. However, may also increase revenue.
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> **Capital Expansion** means expenditure that extends the capacity of an existing asset to provide benefits to new users at the same standard as is provided to existing beneficiaries.

Initial Recognition / Capitalisation

The cost of an item of property, plant and equipment shall be recognised as an asset only if:

- It is probable that future economic benefits associated with the item will flow to the entity; and
- The cost of the item can be measured reliably.

Assets are capitalised at the completion of the project or issuing of acceptance of works. In accordance with AASB 116, an item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. These costs include:

- Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- Any costs directly attributable to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management;
- Costs of dismantling, removing and site restoration; and
- Cost of labour and staff time on the project including design and project management.

Where an asset is acquired at no cost, or for a nominal cost (as is the case with developer and other contributed assets), it is recognised at fair value as at the date of acquisition, or at statement of compliance (subdivisions). Existing assets identified as not being reported in the financial statements for the preceding financial reporting period (found assets) will also be recognised at fair value, but at the opening date for the reporting period.

Thresholds

The purpose of setting capital expenditure threshold levels is to provide a balance between the benefit of precise records and the cost of administrative effort. The thresholds are listed in the Annual Financial Report which is reviewed annually. Below are the current thresholds for capitalisation.

	Depreciation Period	Threshold Limit
Asset recognition thresholds and depreciation periods		
Land		
land	-	-
land under roads	-	-
land improvements	-	5,000
Buildings		
heritage buildings	90 - 180 years	5,000
buildings	10 - 120 years	5,000
shelters	10 - 90 years	5,000
building improvements	10 - 180 years	5,000
leasehold improvements	10 - 180 years	5,000
Plant and Equipment		
Furniture		
art work	0 - 100 years	4,000
indoor furniture	5 - 30 years	4,000
playground equipment	10 - 40 years	4,000
Plant		
heritage plant and equipment	-	10,000
fixed plant, machinery and equipment	3 - 50 years	10,000
fleet (vehicles)	3 - 30 years	10,000
major plant	3 - 50 years	10,000
minor plant	3 - 10 years	4,000

Equipment		
appliances	3 - 60 years	4,000
fixed equipment / fixtures and fittings	5 - 55 years	4,000
computers and telecommunications	3 - 21 years	4,000
leased plant and equipment	-	4,000
Infrastructure		
Roads		
road and tarmac formation and earthworks	-	1
road and tarmac pavements	10 - 80 years	1
road and tarmac seals	10 - 60 years	1
road and tarmac kerb, channel and minor culverts	45 - 80 years	1
footpaths and cycleways	15 - 50 years	1
Bridges		
bridges deck	10 - 70 years	1
bridges substructure	10 - 70 years	1
bridges major culverts	50 - 70 years	1
Drainage		
pit and pipe network	40 - 100 years	1
water retention structures	80 - 100 years	1
Other Infrastructure		
gardens and landscaping	5 - 25 years	1
playing surfaces	10 - 70 years	1
retaining structures	10 - 45 years	1
off street car parks	25 - 100 years	1
aerodromes	25 - 100 years	1
Intangible assets		
software	5 years	4,000

Where the value of individual assets falls below the asset capitalisation threshold, consideration will be given to capitalising a group of like assets (Collective Assets) based on whether the aggregate value of those assets exceeds the capitalisation threshold. Acquisition costs of assets less than these values are considered minor assets and are treated as an operating expense.

Valuations / Revaluations

Council values assets and liabilities at fair value as required by Australian Accounting Standards. AASB13 aims to improve consistency and reduce complexity by providing a definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards.

These standards require assets to be revalued on a regular basis to assess their carrying value against their fair value at the reporting date. A revaluation is undertaken when the annual unit rate assessment determines there is a material change in the asset class or that the assets' carrying value is materially different from its fair value. The date of the revaluation is effective 30 June.

Council determines whether transfers have occurred between asset classes and levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Council will use the Greenfields method to calculate the fair value of assets during the revaluation process.

External Valuations
Where there is an actual market for the asset class, such as land and buildings, the Fair Value of assets are determined from market-based evidence by appraisal, undertaken by professionally qualified valuers. The Manager Financial Services is responsible for the specification, tender and appointment of this contractor. These values are reviewed internally prior to acceptance and are considered level 2 or 3 in the Fair Value Hierarchy.

Internal Valuations
For infrastructure assets where no market exists such as roads, footpaths and specialised buildings (Fair Value Hierarchy 3), the best indicator of Fair Value is Depreciated Replacement Cost (DRC) determined in-house by Council's Assets and Project Management department. Consultants or Quantitative Valuers are engaged to assist with internal valuations and unit rate reviews where time and budget allows. When internal valuations occur the use of *'Greenfield'* values will be used. Please refer to the Asset Valuation Working Document for further information.

Componentisation
Although assets are reported on at a high level such as "Roads", valuations are undertaken at the component level to identify the differences in function, unit rate and useful life on a much finer scale. These figures are provided to Council's management for review prior to acceptance.

Materiality
As defined by AASB 1031, omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

In the context of materiality, it is not necessary to recognise every non-current asset. Where a non-current asset is not material and as such is not capitalised, it is referred to as a minor asset. The purpose of setting capital expenditure threshold levels is to provide the greatest balance between efficiency in administrative effort associated with maintaining records.

Impairment of assets
Fixed assets 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 (which is the higher of the present value of future cash outflows or value in use). For assets whose economic benefits are not dependant 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 (infrastructure assets) is the depreciated replacement cost.

Depreciation

Assessment of Useful Life

The useful life of an asset is defined as the passage of time that the expected consumption of asset services is available to an entity. The useful life is reviewed on a regular basis over this period taking into account condition, deterioration rates and any new information about future economic value. Adjustments resulting from this review will be made prospectively as changes in accounting estimates (i.e., adjustments to depreciation charges will be made to future periods with no allowable adjustment to prior periods). A change in accounting estimates is not necessarily deemed an error if the adjustment to the estimate is a result of new information or developments.

An entity may choose to dispose of an asset prior to all future economic benefits having been consumed, this decision will be based on the most economical or opportunistic time an entity deems appropriate to dispose or replace the asset. There are many factors that contribute to the assessment of an asset's useful life. The overall performance and life expectancy of these assets is influenced by external as well as internal factors. The useful life will be further influenced by the type of materials used in construction, usage volume, normal wear and tear, damage, and known industry standards and established consultancy studies. The useful life may also be cut short as a result of Council determining the service the asset provides is no longer required.

Condition Assessments

Council undertakes an intensive condition audit on its infrastructure assets between 3-5 years. The frequency and methodology vary for each asset class. General guidelines are provided in Asset Management Plans, but the method is thoroughly scoped when the project goes to tender. Rates of deterioration are assessed annually from samples of assets between the full audit frequencies as well as any impact of capital works on condition or remaining useful life.

Disposal of Assets

Disposal of assets should be open and result in effective competition. Council must give fair and equitable consideration to all prospective purchasers and Council must aim to achieve the best value for money in disposing of assets. The concept of value for money is not restricted to price alone. Council will behave with impartiality, fairness, independence, openness and integrity in all discussions and negotiations. In undertaking any disposal activities, Council will encourage environmentally-responsible activities and ensure all disposal activities comply with relevant law. Council will also retain the right to enter into a contract with an employee which supersedes the below conditions. For example, an employee may negotiate the purchase of their council vehicle on termination of employment at the current market value.

Dumping

Goods may be dumped (deposit or disposed of by either recycling, E-waste or landfill) if they are of little or no value. Dumping of goods is to be treated as any other disposal method including the requirement to maintain appropriate records. Recycling of goods is to be considered prior to disposing to landfill.

Donation

Donations of surplus or redundant assets may only be made with the authorisation of the Chief Executive Officer and only after exploring all avenues for recouping a fair value for the Council or any alternative use within Council. Donations to a community group or not-for-profit organisation will be favoured in priority to other individuals or organisations. Council staff should consider donations in response to a written submission or by the way of best value for the community's needs.

Buyers Risk

Irrespective of the disposal methods applied, purchasers or donation/charity recipients of assets must be required to agree in writing that before purchasing or receipt of any asset that no warranty is given or implied by the Council in respect of the suitability and condition of the asset for the purchaser or recipient and that Council will not be responsible for the asset in any respect following the sale.

Elected Members and Employees

Elected members, employees, volunteers or contractors of the Council will not be permitted to take assets at no cost. Nor will they be able to purchase assets unless the purchase is via an open tender process or a public auction, and the tender submitted or bid made is the highest. In such circumstances, the officer responsible for the disposal of the asset must ensure the principles of impartiality and confidentiality with respect to the process and outcome of the purchase are strictly observed. Please note that any contractual obligations which are entered into between Council and an employee supersedes this clause.

RELATED DOCUMENTS

TBC

DOCUMENT CONTROL

Policy owner	Senior Accountant	Division	Corporate Services
Adopted by council	28 July 2021	Policy Number	16.6
File Number	D21/162788	Review date	28 July 2025