



Council Policy

16.6 ASSET ACCOUNTING POLICY

PURPOSE

The purpose 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, bridges, footpaths, drains, reserves and buildings used by the community.

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.

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.

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REFERENCES

This policy has been developed with reference to the following legislation and Regulations:

State Government Legislation

- Local Government Act 2020

State Government Regulations

- Local Government (Planning and Reporting) Regulations 2020

Australian Accounting Standards

- AASB 13 – Fair Value Measurement
- AASB 101 – Presentation of Financial Statements
- AASB 108 – Accounting Policies, Change in Accounting Estimates and Errors
- AASB 116 – Property, Plant and Equipment
- AASB 117 – Leases
- AASB 136 – Impairment of Assets
- AASB 138 – Intangible Assets
- AASB 1031 – Materiality
- AASB 1051 – Land Under Roads
- AASB 1058 – Income of Not-for-Profit Entities

Australian Accounting Standards Board - Urgent Issues Group (UIG)

- UIG Interpretation 1030: Depreciation of Long-Lived Physical Assets – Condition-Based Depreciation and Related Methods
- UIG Interpretation 1055: Accounting for Road Earthworks

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.

Asset Register

A register listing details of key data for each asset behind general ledger balances

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CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



Capital – Expansion

Expenditure that extends the capacity of an existing asset to provide benefits to new users at the same standard as is provided to existing users

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 – New

Capital Expenditure to supply “additional” service levels

Capital – Renewal

Restores the service potential to the original capacity of the asset.

Capital – Upgrade

Works which provide a higher level of service capacity and increasing the life of the asset beyond its original useful life.

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.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life; also known as Annual Depreciation or Depreciation Charge.

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.

Fair Value

The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arms-length transaction in the following market conditions:

- a. active & liquid market – current market price
- b. active & liquid market not available – current market prices for assets that are similar in use, type and condition
- c. specialised assets (where no market evidence of its market selling price) – replacement cost of the assets remaining future economic benefits

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CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



Fair Value Hierarchy

AASB 13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. It gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Found Assets

Existing assets identified for the first time (and not recognised in a previous reporting period)

Impairment - The Amount by which the carrying amount of an asset exceeds its recoverable amount

Greenfields Methodology

A Greenfields Valuation estimates the cost to replace an asset, assuming there are no existing constraints, such as underground services or adjacent infrastructure, that will adversely affect the cost of reconstructing or replacing the asset. In this Valuation Method unit rates are based on the cost to acquire/construct the asset in a 'greenfield' (undeveloped) location.

Intangible Asset

Per AASB 138 - An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets typically include software assets.

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

Materiality

Per AASB 1031 Information is material if its omission, misstatement or non-dis-closure has the potential, individually or collectively

- a) Influence the economic decisions of users taken on the basis of the financial statements; or
- b) Affect the discharge of accountability by management or Council.

The size or nature of the item, or a combination of both, could be the determining factor.

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

Operating Expenditure

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.

Useful Life

The passage of time that the expected consumption of asset services is available to an entity.

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



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.

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



STATEMENT OF POLICY

1. Recognition

1.1 Initial Recognition

AASB 116 states:

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 disruption during the construction of asset including any relocation of services and restoration costs of assets of another entity
- Costs of dismantling, removing and site restoration; and
- Cost of labour and staff time on the project including design and project management.

1.2 Subsequent Costs

Costs Subsequent to the initial recognition of an asset shall in accordance with AAS116 treatments in that the Expenditure will be costed as maintenance or classified as Capital renewal or Capital Upgrade

1.3 Contributed Assets

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. Council must be able to demonstrate that the value ascribed to a developer contribution is the fair value to Council. In determining fair value, developer contributions require individual valuations of contributed infrastructure assets and adjustments accounted for as operating income.

Contributed assets are recognised by Council when:

- (a) Land – Title passes to Council
- (b) Roads & Tarmac – Title passes to Council and a practical completion inspection has been undertaken

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.

1.4 Recognition & Measurement to Found Assets

Where the date of recognition occurred in a prior period and the asset has not yet been recognised, this is classed as a prior period error under AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

Material errors in a prior period may require correction of opening balances. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The cumulative total asset value of prior period errors will be assessed when determining materiality. Found assets are typically recognised as revenue (other income), where changes in accounting estimates are immaterial, unless there is a significant reporting error affecting one or more financial reporting periods.

Found assets identified for the first time should be referred to the valuer for assessment and valuation at fair value if the size and nature is material, otherwise a found asset can be recognised in the scheduled revaluation process.

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



1.5 Recognition of Intangible Assets

An intangible asset is recognised when:

- it is capable of being departed or divided from the entity or from a contractual or other legal right; and
- the entity controls the future economic benefits flowing from the asset; and the cost of the asset can be measured reliably.

Intangible assets are measured initially at cost, or where an intangible asset is acquired at no costs or a nominal cost, the cost is its fair value as at the date of acquisition. After initial recognition, intangible assets will be carried at cost, less any accumulated amortisation and impairment losses.

2. Capitalisation Thresholds

Council will apply capitalisation thresholds when recognising assets. The purpose of setting capital expenditure threshold levels is to recognise that costs for accounting for large numbers of low-cost assets (even when aggregated) would exceed information benefits and are not material in the context of councils' total equity. Where a non-current asset is not material and as such is not capitalised, it is referred to as a minor asset.

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.

The thresholds are listed in the Annual Financial Report which is reviewed annually. Below are the current thresholds for capitalisation.

Asset recognition thresholds and depreciation periods	Depreciation Period	Threshold Limit \$
Land		
land	-	-
land under roads	-	-
land improvements	-	5,000
Buildings		
heritage buildings	90 - 180 years	10,000
buildings	10 - 120 years	10,000
shelters	10 - 90 years	10,000
building improvements	10 - 180 years	10,000

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



Asset recognition thresholds and depreciation periods	Depreciation Period	Threshold Limit \$
leasehold improvements	10 - 180 years	10,000
<u>Plant and Equipment</u>		
Furniture		
artwork	0 - 100 years	4,000
indoor furniture	5 - 30 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
<u>Infrastructure</u>		
Roads		
road and tarmac formation and earthworks	-	10,000
road and tarmac pavements	10 - 100 years	10,000
road and tarmac seals	10 - 80 years	10,000
road and tarmac kerb, channel and minor culverts	45 - 80 years	2,500
footpaths and cycleways	15 - 50 years	2,500
off-street car parks	25 - 100 years	10,000
aerodromes	25 - 100 years	10,000
Bridges		
bridges deck	10 - 90 years	10,000
bridges substructure	10 - 90 years	10,000
bridges major culverts	50 - 90 years	10,000
Drainage		
Open drainage network	10 - 100 years	10,000

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



Asset recognition thresholds and depreciation periods	Depreciation Period	Threshold Limit \$
pit and pipe network	40 - 100 years	5,000
water retention structures	80 - 100 years	10,000
Other Infrastructure		
gardens and landscaping	5 - 50 years	10,000
playing surfaces	10 - 50 years	10,000
retaining structures (roads)	10 - 70 years	10,000
other structures	10 - 70 years	10,000
playgrounds	10 - 50 years	10,000
sports ancillaries	10 - 40 years	4,000
fences and barriers	10 - 40 years	4,000
surfaces	10 - 60 years	10,000
signs & signposts	10 - 40 years	4,000
guard rails	10 - 40 years	5,000
lighting & electrical	10 - 40 years	4,000
irrigation	10 - 60 years	4,000
public art and monuments	10 - 70 years	4,000
outdoor furniture and accessories (e.g. bins, drinking fountains, fitness equipment, bike racks)	10 - 40 years	4,000
<u>Intangible assets</u>		
software	5 years	4,000

3. Depreciation

3.1 General

AASB 116 Property, Plant and Equipment requires buildings, land improvements, plant and equipment, infrastructure, and other assets having limited useful lives to be systematically depreciated over their useful lives in a manner which reflects consumption of the service potential embodied in those assets. UIG Interpretation 1030: Depreciation of Long Lived Physical Assets – Condition-Based Depreciation and Related Methods provides further guidance to the local government sector on appropriate methods of depreciation for long-lived physical assets (infrastructure assets).

The useful life of each asset and asset class is reviewed on a regular basis over the life of the asset considering 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

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



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.

4. Valuations / Revaluations

4.1 General

Council recognises and values assets and liabilities at fair value in accordance with AASB 13 Fair Value Measurement and AASB 116 Property, Plant and Equipment. Valuation methodologies applied by Council are appropriate to the asset categories and classes consistent with those applied across the Victorian local government sector. A consistent approach across the sector reduces complexity by providing definitions of fair value, consistent methodologies for fair value measurement, and comparable disclosure requirements.

4.2 Valuation Model

AASB 116 Property, Plant and Equipment requires Council to choose either of the following valuation models to be applied to an entire class of property, plant and equipment after initial recognition:

a) Cost Model

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

b) Revaluation Model

After recognised as an asset, an item of property, plant or equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses.

Fair value is determined by:

1. Assessing the appropriate valuation technique:

- (a) Market Approach – are there any similar assets to provide observable market prices? If no.
- (b) Income Approach – is the asset used to generate cash flows? If no,
- (c) Cost Approach – what a market participant (e.g. another council) looking to obtain a similar service capacity would consider it costs to build a facility

2. Calculating Fair value using the cost approach by including:

- (a) Referencing gross asset replacement cost (see checklist below)
- (b) Subtracting physical obsolescence (adjusting for the asset's current condition)
- (c) Adjusting for functional obsolescence (does it still meet current needs)
- (d) Adjust for economic obsolescence (is there an oversupply of service capacity or reduced demand)

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



Costs included in determining the unit rate to calculate gross replacement cost include:

- (a) All costs of the physical asset
- (b) Site preparation costs
- (c) Removal of existing structures
- (d) Disruption costs
- (e) Relocation of services
- (f) Restoration costs of assets of another entity
- (g) Assessment costs (eg: environment/cultural heritage)
- (h) Decontamination costs

Council will use the following models across its asset classes –

Asset Class	Model
Land	Revaluation – Market Based
Buildings	Revaluation – Market Based/Condition Based
Plant	Cost
Equipment	Cost
Furniture	Cost
Roads & Tarmac	Revaluation - Unit Rate/Condition Based
Bridges & Major Culverts	Revaluation - Unit Rate/Condition Based
Footpaths, Cycleways & Trails	Revaluation - Unit Rate/Condition Based
Kerb & Channel	Revaluation - Unit Rate/Condition Based
Other Infrastructure Structures	Revaluation - Unit Rate/Condition Based
Software	Cost
Drainage Network	Revaluation - Unit Rate/Condition Based

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



4.3 Frequency of Revaluation

Asset class revaluations are required with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Maximum asset revaluation frequencies by Assets Class are provided in table below:

Asset Class	Maximum Revaluation Frequencies
Land	4 years
Buildings	4 years
Plant	Not subject to revaluations
Equipment	Not subject to revaluations
Furniture	Not subject to revaluations
Roads & Tarmac	4 years
Bridges & Major Culverts	4 years
Footpaths, Cycleways & Trails	4 years
Kerb & Channel	4 years
Other Infrastructure Structures	4 years
Software	Not subject to revaluations
Drainage Network	4 years

For Roads, Bridges, Pathways, Drainage, and Other Infrastructure asset classes, condition assessments should be performed at the same time as revaluations of the same asset class.

Council is required to annually assess if there has been a material change in the fair valuation of an asset class. Any material change will require an indexation for an asset class from the last revaluation, if it is considered to be a more reasonable basis for its fair value.

A material change in the fair valuation of an asset class is assessed as a movement in the asset value (increase or decrease) of 10% or more.

Plant and equipment assets are not subject to cyclical asset revaluations.

4.4 Revaluation of Asset Components

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

4.5 Revaluation Reserve Accounting

Accounting for movements in asset values as a result of revaluation will be accounted for in accordance with AASB 116 via asset revaluation reserves.

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
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5. Impairment of assets

5.1 Impairment

AASB 136 Impairment of Assets requires that Council assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, Council shall estimate the recoverable amount of the asset.

Indications of impairment may include:

a) External

- An asset's value has declined significantly more than would be expected as a result of the passage of time or normal use.
- The carrying amount of the net asset is more than its market capitalisation or depreciated replacement cost.

b) Internal

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on Council 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 an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is measured as the higher of an assets fair value less costs to sell, or its 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.

6. Disposal of Assets

6.1 Disposal

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.

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
--------------	------------	------------------	-----------



An asset may be disposed of in the following ways:

- a) Sold, traded-in, or auctioned if part of an asset replacement program
- b) By replacement with another asset
- c) Written off, if the asset is identified as having reached the end of useful life
- d) Scrapped if they are of little or no value. Scrapped assets may be disposed of by either recycling, E-waste or landfill. Recycling of goods is to be considered prior to disposing to landfill
- e) Donated when surplus or redundant 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. Donation of assets may only be made with the authorisation of the Chief Executive Officer
- f) Transferred to another entity/authority to meet a legal or contractual obligation.

6.2 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.

6.3 Net Gain or Loss Arising from Disposal

AASB 116 Property, Plant and Equipment requires the net gain or loss arising from the disposal or write-off of property, infrastructure, plant and equipment to be recognised as income or expenses depending on the net impact in a given year.

7. Miscellaneous

7.1 Reporting

A report should be presented to the Audit and Risk Committee prior to 30 June each year that outlines the:

- Requirements of this policy with respect to property, infrastructure assets, plant and equipment
- Approach to assessing the fair value of each class of property, infrastructure assets, plant and equipment, including the engagement of an expert valuer and key milestones, and
- Likely outcomes for the respective reporting cycle, such as the expected movements in fair value and resultant impact on the financial report.

7.2 Review of Asset Register

An annual review of the asset register shall be undertaken to identify assets that may have reached the end of useful life and therefore should be removed from the register.

IMPLEMENTATION AND REVIEW

This policy will be implemented by Council and is subject to review every 4 years.

Uncontrolled when printed

CM reference	D24/174083	Date of adoption	June 2025
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