Asset Accounting Policy

Strategic Reference	Objective 1; A caring, healthy and resilient community. Strategy 1.7; Achieve or implement the statutory and core responsibilities of Council.
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Responsibility	Community & Corporate Department
Revision Number	3
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Applicable Legislation	Local Government Act 1999 s127
Related Policies	Asset Management Policy
Related Documents	Asset Management Plan's Australian Accounting Standards Asset Accounting Manuals Internal Controls Assessment Report

1. Purpose

The purpose of this policy is to provide guidance, clarity and consistency regarding the treatment of capital expenditure, which will provide for greater understanding and accuracy of Council's capital requirements and depreciation expenses. The existence of this policy will assist to ensure there is a distinction made 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.

2. Definitions

"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.

"Maintenance" – Maintenance of an asset is periodic expenditure required to ensure that the asset continues to provide future economic benefits or expenditure on non current assets that do not meet the capitalisation criteria. Maintenance costs are expensed annually as they are incurred.

"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 asset stock is being consumed annually.

"Group Assets" – An asset that by itself does not meet the capitalisation criteria but, as part of a group, meets the capitalisation criteria. Examples of group assets are library books, office furniture and IT equipment.

"Capital Expenditure" – Capital expenditure can be broken down into two categories:

i Costs incurred in the creation of a new asset – including design costs, planning and development compliance costs, construction costs.

ii Costs incurred for replacement and repair of an existing asset – these costs can be considered capital when the replacement or repair results in an extension of the useful life of the asset.

"Operating Expenditure" - Operating expenditure refers to the running costs incurred in operating an asset. These costs do not preserve or extend the life of an asset and are expensed as they are incurred.

***"Carrying Amount"* -** The carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

***"Residual Value"* -** The residual value of an asset is the estimated amount that an entity would currently obtain from the disposal of an asset, after deducting the estimated costs of disposal.

***"Useful Life"* -** The useful life is, the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

"*Fair Value*" – Is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

3. Policy Statement

Assets shall be recognised and accounted for in accordance with Australian Accounting Standards and the details contained in this policy.

3.1 Assets

"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."[1]

There are three specific elements that define an asset:

i 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.

ii 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.

iii 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.

iv Assets must have a useful life greater than one year to be capitalised.

[1] Paragraph 49a of the "Framework for the Preparation and Presentation of Financial Statements", published by the Australian Accounting Standards Board (AASB)

3.2 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."[2]

All capitalised expenditure is to be recorded in Council's asset register, appropriately identified, described and classified. For each asset or group of assets a determination of its estimated useful life, its cost for accounting purposes and the method of periodic depreciation must be identified.

3.3 Measurement at 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."[3]

In respect of not-for-profit entities, 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.

3.4 Derecognition

The carrying amount of an item of an asset shall be derecognised:

i. On disposal or
ii. When no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition shall be included in profit or loss when the item is derecognised.

3.5 Asset Recording

All assets, including fixed assets such as plant and equipment, are to be recorded with pre-numbered identification tags to facilitate recognition in Council's Asset Management Plans. The update of Council's Asset Management Plan should be undertaken on a regular basis.

3.6 Depreciation of Assets

Two definitions are useful to understand the concept of depreciation. They are:

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

ii "Depreciation amount is the cost of an asset, or other amount substituted for cost, less its residual value" 4

Depreciation provides two key information sets for public sector entities:

i The rate at which the entity's asset base is used up; and

ii Information for the pricing of services.

[2] Paragraph 89 of the "Framework for the Preparation and Presentation of Financial Statements"
[3] AASB 116 – Property Plant and Equipment", paragraph 15:
[4] AASB 116 – Property Plant and Equipment

In the context of asset capitalisation, depreciation is an important determinant of the current fair value of an asset. Paragraphs 43 to 47 of “AASB 116 – Property Plant and Equipment” provide guidance in applying the concept of depreciation to parts of assets:

43. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

44. An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

45. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

46. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item.

47. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.”

3.7 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.

4. Capitalisation Thresholds

The following table provides guidance when determining whether expenditure is both capital and material in nature.

	Maintenance	Capital
Fleet & Plant Assets	Expenditure <$5,000 for individual items or items that cannot be easily grouped.	Expenditure >$5,000 for individual assets, or assets that can be easily grouped.
Sealed Roads and Car Parks	Minor road patching. Shoulder grading. Line marking. Road cleaning & sweeping. General kerb maintenance.	Road patching other than minor works >$10,000 New road construction (including relevant line marking). Resealing >$10,000 Reconstruction >$10,000 Repairs to kerb & channel >$10,000 New kerb construction

	Maintenance	Capital
Unsealed Roads	Grading. Sweeping. Scrub Clearing.	Other Treatments >$10,000
IT	Expenditure <$5,000 for individual assets or assets that cannot be easily grouped.	Expenditure >$5,000 for individual assets, or assets that can be easily grouped.
Stormwater & CWMS	Minor repairs <$5,000	Pipe and structure replacement >$5,000 New pipes and structures New wetlands Purchase or replacement of pump and bore equipment >$5,000
Office Furniture & Equipment	Purchases <$5,000	Expenditure >$5,000 for individual item or items which can be grouped
Jetties & Wharves	Minor bridge repairs <$10,000	Bridge structure replacement >$10,000 New bridges
Signs	Repairs to existing individual signs & posts	New signs and/or posts Replacement of existing signs >$5,000
Footpaths	Footpath maintenance (pothole repair, joint grinding, segment paving resetting) <$5,000	Footpath replacement >$5,000 New footpath construction
Research ,Design & Project Management Costs	All research, design & project management costs incurred on projects which have not proceeded.	Subject to the tests of AASB 136 Impairment of assets
Traffic Calming Devices	All line marking. Any maintenance to existing devices <$5,000	Any new or complete replacement of kerb, fence and component of the device New traffic islands
Irrigation	Maintenance to existing irrigation equipment <$5,000	New irrigation equipment Major repairs/replacement of irrigation equipment >$5,000

	Maintenance	Capital
Land and Reserves	Maintenance of landscaping structures Renewal of mulch and garden beds Plants and Trees Maintenance to existing park furniture	New pavers and concrete paths New irrigation systems New park furniture Replacement of existing park furniture > $3,000
Sporting Ovals and Playing Courts	Line Marking Lawn mowing Light tower bulb replacements	Major Earthworks Court construction and resurfacing Light tower construction and replacement > $5,000
Playground Equipment	Maintenance to existing playground equipment	New playground equipment Replacement of playground equipment > $5,000
Buildings	All maintenance of building components.	Any structural addition to the buildings >$10,000 Renewal of building components

5. Depreciation of Non-current Assets

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the economic benefits provided by those assets. Land is not a depreciable asset. The depreciation method applied shall be the straight line basis. Depreciation rates shall be reviewed each year.

6 Revaluations

When an asset is recognised, it's value can be recognised either by the cost model or by the revaluation model. The cost model recognises the original cost of an asset less any accumulated depreciation and impairment losses. 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.

AASB 13 Fair Value Measurement establishes a fair value hierarchy that categorises the inputs to the valuation into three levels.. Highest priority is given to quoted prices in active markets for identified assets and liabilities and lowest priority to unobservable inputs.

Level 1: Inputs are quoted prices (unadjusted in active markets for identical assets of liabilities that the entity can access at measurement date.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly:
a) Quoted prices for similar assets or liabilities in active markets
b) Quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Inputs are unobservable inputs for assets or liabilities.

Unobservable inputs are to be used to measure fair value to the extent that relevant unobservable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

Revaluation of assets will be undertaken with sufficient regularity to ensure the carrying amount of the asset does not differ materially. Revaluations of a whole asset class are scheduled to occur on a four yearly basis, but dependant on the asset class more frequent revaluations may be required.

7. Useful Lives & Fair Value of Council Assets

Road Infrastructure	Useful Lives	Fair Value Hierarchy
Sealed Roads Surface - Spray Seal	**25**	3
Sealed Roads Surface - Asphalt	**35**	3
Sealed Roads Pavement	**100**	3
Unsealed Roads Pavement	**40**	3
Sealed Roads Pavement Sub Base	**200**	3
Unsealed Roads Pavement Sub Base	**200**	3
Formation Earthworks	**indefinite**	3
Kerbing	**80**	3
Footpath - Concrete	**50**	3
Footpath – Brick Pavers	**40**	3
Footpath - Asphalt	**30**	3
Footpath - Gravel	**10**	3
Plant & Equipment	**Useful Lives**	**Fair Value Hierarchy**
Office Equipment	**4**	N/A
Office Furniture	**10**	N/A
Vehicle & Road Making Equipment	**5-30**	N/A
Other Plant & Equipment	**5-20**	N/A
Building & Other Structures	**Useful Lives**	**Fair Value Hierarchy**
Buildings - Substructure	**100**	3
Buildings – Superstructure	**100**	3
Buildings - Roof	**75**	3
Buildings – Furniture & Fittings	**30**	3
Buildings – Floor Coverings	**25**	3
Buildings – Services (Hydraulics)	**20**	3
Buildings – Services (Mechanical)	**20**	3
Buildings – Services (Fire)	**20**	3
Buildings – Services (Electrical)	**20**	3

Buildings – Services (Transport)	**30**	3
Buildings – Services (Security & Others)	**10**	3
Buildings – Site Services	**30**	3
Buildings – Site Externals	**40**	3
Other Structures		3
CWMS	**Useful Lives**	**Fair Value Hierarchy**
CWMS - Pipes	**60-80**	3
CWMS - Manholes	**60**	3
CWMS – Pump Stations (Civil)	**45-60**	3
CWMS – Pump Stations (Mechanical / Electrical)	**25**	3
CWMS – Lagoons (Civil)	**150**	3
CWMS – Lagoons (Internal Pipes)	**100**	3
CWMS – Lagoons (Other)	**15-25**	3
CWMS – WWTP (Civil)	**50**	3
CWMS – WWTP (Mechanical /Electrical & Comms)	**25**	3
CWMS - Irrigation	**40**	3
CWMS - Other	**20-25**	3
Water Supply	**Useful Lives**	**Fair Value Hierarchy**
Water Supply - Pipes	**60-70**	3
Water Supply - Other	**15-30**	3
Stormwater	**Useful Lives**	**Fair Value Hierarchy**
Stormwater - Pipes	**60**	3
Stormwater - Other	**20-100**	3
Other Assets	**Useful Lives**	**Fair Value Hierarchy**
Other Assets	**15**	Nil
Library Books	**7**	Nil

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8. Impairment

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

9. Land held for resale

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 development as community facilities is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition and development

10. Land under roads

For reporting periods commencing on or after 1 July 2008, "AASB1051 – Land under roads" came into effect. In accordance with this Standard, Council has elected not to recognise values for land under roads held as at 30 June 2008 as it has determined that there is no reliable measurement; an essential criteria for asset recognition.

From 1st July 2008 onwards all newly acquired land under roads must be recognised in accordance with AASB116 –Property, Plant and Equipment, paragraph 7 of which states that an asset should only be recognised if, and only if;

i It is probable that the future economic benefits associated with the item will flow to Council; and

ii The cost of the item can be measured reliably

A reliable method has been unable to be determined; hence land under roads will not be recognised in reporting period from 1 July 2008.

11. Further information

This policy will be available for inspection at the Council offices listed below during ordinary business hours and available to be downloaded, free of charge, from Council's website: www.coorong.sa.gov.au.

Coorong Civic Centre	**Meningie Information Hub**	**Tintinara Customer Service Centre**
95-101 Railway Terrace Tailem Bend Phone: 1300 785 277 Fax: 8572 4399	49 Princes Highway Meningie Phone: 1300 785 277	37 Becker Terrace Tintinara Phone: 1300 785 277

Copies will be provided to interested parties upon request. Email council@coorong.sa.gov.au.

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer of Council.