Asset Accounting Policy

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File Number	7/POL/AAP/2
Responsible Officer	Director – Corporate & Financial Services
Adopted	May 2016
Last reviewed at Council Meeting	15 August 2023
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Due date of next Review	August 2027

1. Purpose

The objective of this policy is to ensure that Council's non-current assets are recognised and accounted for in accordance with Australian Accounting Standards and the Local Government Act and Regulations.

2. Definitions

2.1 **Capital Expenditure** – expenditure that is recognised as a non-current asset that is material and has benefits expected to last more than 12 months. Capital expenditure includes new, renewal and upgrade.

2.2 **Capital New** – expenditure which creates a new asset providing a new service/output that did not exist beforehand eg building a new shelter, the extension of existing stormwater piping network.

2.3 **Capital Renewal** – expenditure 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 that returns the service potential or the life of the asset up to that which it had originally. The replacement may be altering the asset to current acceptable standards eg resurfacing or resheeting a road, replacing drainage pipes with pipes to carry water from the same area of collection. (pipe material may alter from steel to PVC), replacement of a toilet block to incorporate a handicap cubical.

2.4 **Capital Upgrade** – expenditure incurred to enhance an existing asset to provide a higher level of service or increasing the original life of an asset – including design costs, planning and development compliance costs and construction costs eg widening the sealed area of an existing road to incorporate a bike lane, sealing of an unsealed road.

3. Policy

3.1 Scope

This policy covers acquisition and accounting treatment of Council's non-current assets to ensure they are managed in an efficient and financially responsible manner and financial information related to non-current assets is presented consistently to enable decision making for users of Council's financial information.

3.2 Recognition of an Asset

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

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

3.2.1.2 **Control** – the ability of Council to benefit from the future economic benefits or to restrict the access of others to those benefits;

3.2.1.3 **Occurrence of past event** - the asset must be in existence. A contract to purchase an asset or the intent to acquire an asset does not mean an asset will be recognised.

3.2.2 Assets are recognised in the balance sheet when it is probable that the future economic benefits embodied in the asset will eventuate and that the asset possesses a cost or other value that can be measured reliably.

3.2.3 The initial valuation basis for an asset is its cost. Cost is determined as the fair value of the asset given as consideration, plus costs incidental to the acquisition and all other costs incurred in getting the asset ready for use.

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

3.2.5 Assets with a useful life of less than 12 months will not be capitalised.

3.2.6 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. Land subsequently acquired for road purposes should initially be recognised at cost but thereafter is to be carried using the fair value model, effectively requiring the amount to be written off as a revaluation decrement at the end of the reporting period.

3.3 Leases

3.3.1 In accordance with AASB16 Leases effective from 1 July 2019, all leases (subject to the exceptions described below), will be capitalised by recognising a Right of Use asset together with a liability for the present value of the lease obligation.

3.3.2 Depreciation will be calculated on the Right of Use asset and interest will be calculated on the lease liability.

3.3.3 The value of the Right of Use asset and the lease liability will include non-cancellable lease payments and payments for option periods which Council is reasonably certain to exercise.

3.3.4 The following leases will be excluded from capitalisation:

3.3.4.1 **Short Term Leases** – leases for a period of 12 months or less

3.3.4.2 **Low Value Items** – items which when new have value below $10,000 e.g. laptops, tablets, computers, small items of furniture and equipment. This low value item is applied to an item, not to a group of items, and applies to the ‘as new’ value, not a second hand value.

3.4 Asset Materiality

3.4.1 The relevance of financial 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.

3.4.2 When determining whether expenditure needs to be capitalised, both the nature and the size (materiality thresholds) need to be considered.

3.4.3 Where the expenditure on individual assets that fall below the materiality threshold but operate together as a network or asset group, the expenditure can be capitalised, for example computer network, CWMS pumps or stormwater pumps. Council has elected not to capitalise library book stock.

3.4.4 Council's materiality levels for capitalisation of assets by class are outlined in Schedule 1.

3.4.5 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.

3.4.6 No materiality thresholds are applied to the acquisition of land or interests in land.

3.5 Asset Value

3.5.1 An asset that qualifies for recognition as an asset will be measured at its cost on the date of recognition unless it is a gifted asset, where it will be recognised at fair value at the date of acquisition.

3.5.2 Where the future economic benefits of an asset for Council are not primarily dependent on the assets ability to generate net cash inflows and where the Council would, if deprived of the asset, replace its remaining future economic benefits, fair value shall be determined as the depreciated replacement cost of the asset.

3.5.3 Buildings, roads, bridges and other structures will often require to be valued at a component level to calculate annual depreciation due to different components having different useful lives.

3.5.4 AASB 13 requires the use of a fair value hierarchy where assets are reported as level 1, level 2 or level 3 inputs. This refers to how the value of the asset has been determined. The following table outlines the fair value hierarchy disclosure classification by asset class for Mid Murray Council. Market values are to be based on highest and best use of the asset, for example a Council depot on land that is zoned commercial would be valued as a potential site for a commercial development site, with no value given to the depot sheds.

Hierarchy	**Description**
Level 1 Inputs	**Quoted Prices - active markets**
Financial Assets	A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (eg on different exchanges).
Level 2 Inputs	**Observable Inputs - Market Value**
Land, Council buildings on non-community land and are able to be used commercially (eg. Offices, libraries, shops), equipment and furniture & fittings	Level 2 inputs include the following: (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. (c) Inputs other than quoted prices that is observable for the asset or liability.
Level 3 Inputs	**Unobservable Inputs - Restrictive, Replacement Cost**
Buildings on Community Land, Community Land, all Infrastructure Assets	An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs such as the entity's own forecasts. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data and shall adjust that data if reasonably available information indicates that other market participants would use different data.

3.6 Asset Revaluation

3.6.1 After recognition of an asset, all non-current assets must be revalued regularly to ensure that the carrying amount does not differ materially from its fair value in accordance with Australian Accounting Standards and Regulations under the Local Government Act.

3.6.2 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.

3.6.3 For infrastructure and other asset classes where no active market exists, fair value is determined using the current replacement cost (CRC) of an asset. Taking into any accounts such as restrictions placed on the assets (example. Community land, land dedicated as a reserve). Council's valuation threshold, valuation method and range of useful life for particular asset classes are outlined in Schedule 1.

3.6.4 Valuations are undertaken on a cyclical basis at an interval of 5 years. The frequency of revaluation may be reduced if there is material volatility of the fair value of an asset class.

3.6.5 Council must revalue an entire class of assets and not individual assets as per the Australian Accounting Standards.

3.6.6 If the carrying amount of the class of asset is increased as a result of a revaluation, the net revaluation increase shall be credited directly to equity as a revaluation reserve. Revaluation increases or decreases relating to individual assets within a class of assets shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

3.7 Asset Depreciation

3.7.1 All assets except land have a limited useful life, an asset's remaining useful life is the amount of time until it is expected to be replaced or renewed.

3.7.2 Assets are systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets. Each item within a class of assets that is significant shall be depreciated separately.

3.7.3 Depreciation is recognised on a straight-line basis and the range of useful lives for each class of asset are shown in Schedule 1.

3.7.4 The value of the asset when it is disposed of to another party at the end of its useful life (less any material associated disposal costs) is its residual value. Assets that will not be disposed/sold to a third party cannot have a residual value, being a value that depreciation is not applied. (example: Roads, footpaths and bridges).

3.7.5 The residual value of buildings, vehicles, plant and furniture and fittings that are traded at the end of their useful life can be calculated via AASB 13 Fair Value Measurement. The residual value, useful life assigned to assets and the depreciation method applied must be reviewed at least annually.

3.8 Asset Impairment

3.8.1 Assets that have an indefinite useful life are not subject to depreciation are reviewed annually for impairment (example Land).

3.8.2 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.

3.8.3 An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount in accordance with AASB136.

3.9 Asset Sale or Disposal

The disposal or sale of Council assets must be performed in accordance with Council's "*Disposal of Land and Other Assets Policy*".

4. Policy Responsibility

The Director – Corporate & Financial Services is responsible for ensuring the proper operation of this Policy.

5. Availability/Accessibility

5.1 This Policy and Council's Fees and Charges Register are available to be downloaded free of charge from Council's website: www.mid-murray.sa.gov.au.

5.2 This Policy is available for inspection at Council's principal office during ordinary business hours. Hard copies, for a fee in accordance with Council's schedule of Fees and Charges, can be provided upon request.

6. Legislative Framework / Other References

6.1 *Local Government Act 1999*

6.2 *Local Government (Financial Management) Regulations 2011*

6.3 Australian Accounting Standards –

6.3.1 AASB 13 Fair Value Measurement
6.3.2 AASB 136 Impairment of Assets
6.3.3 AASB 1031 Materiality
6.3.4 AASB 138 Intangible Assets
6.3.5 AASB 1051 Land under Roads

6.4 *Asset Management Policy*

6.5 *Procurement Policy*

6.6 *Disposal of Land and Assets Policy*

6.7 *Prudential Management Policy*

6.8 Annual Budget

6.9 Long Term Financial Plan

6.10 Council's Strategic Plan - Community

6.11 Asset Management Plans

7. Document History

This Policy shall be reviewed at least every four (4) years or more frequently if legislation or Council requires.

Version	Adopted	Minute	Description of Change
1	May 2016	18174/2	Adopted
	January 2018		Updated with new document format, no content change.
2	13 August 2019	20807/6	Multiple updates including treatment of land acquired for road purposes, right of use asset requirement to value at times buildings, roads, bridges and other assets, altering the period of valuations to be every 5 years, clarifying only assets that are normally disposed or sold to a third party can only have a residual value, updating of Legislative Framework/Other References, reducing the number of definitions and updating of Schedule 1 in line with Asset Management Plan and other minor grammatical corrections.
3	15 August 2023	C08-23/018	Minor Updates to Schedule 1 and updated with new document format.

SCHEDULE 1

Asset Class/Type	Materiality Threshold	Valuation Method	Useful Life
Land	No Minimum	Revaluation	Unlimited
Buildings			
- Buildings	$15,000	Revaluation	15-100 Years
- Structures	$15,000	Revaluation	15-100 Years
Infrastructure			
- Bridges & Major Culverts	$10,000	Revaluation	50-80 Years
- Landfill Cell (estimated time to fill)	$10,000	Cost	10 Years
- Effluent Drainage	$10,000	Revaluation	5-100 Years
- Footpaths	$10,000	Revaluation	26-87 Years
- Kerbs	$10,000	Revaluation	67-70 Years
- Recreation Open Space	$10,000	Revaluation	5-100 Years
- Roads	$10,000	Revaluation	18-75 Years
- Roads Earthworks	$10,000	Revaluation	500 Years
- Stormwater Drainage	$10,000	Revaluation	50-90 Years
- Street Furniture	$10,000	Revaluation	5-30 Years
- Water Supply	$10,000	Revaluation	5-100 Years
- Marine Facilities	$10,000	Revaluation	25-100 Years
Plant & Equipment			
- Major Plant & Equipment	$15,000	Cost	5-25 Years
- Minor Plant	$5,000	Cost	2-15 Years
- IT Equipment	$3,000	Cost	2-15 Years
Furniture & Fittings	$5,000	Cost	2-20 Years
Heritage Tourism Assets	$10,000	Cost	50 Years