# Asset Accounting Policy

Corporate Services

CORP_28

## Purpose

The Framework for the Preparation and Presentation of Financial Statements (the Framework) identifies four principal characteristics that make the information provided in financial reports useful to users: understanding, relevance, reliability and comparability. Other important factors in the recording of assets are timeliness, materiality and cost versus benefit. This policy takes the position that, for the most part, the characteristics of relevance and reliability will be met by valuing non-current physical at their fair value, as defined in AASB 13 Fair Value Measurement rather than at cost.

## Scope

The Asset Accounting Policy applies to all employees however it is specifically directed, to all Asset Custodians and officers who have asset management, asset accounting and financial accounting responsibilities.

## Applicable Legislation

Local Government Act 2009

Local Government Regulation 2012

Land Act 1994 (revised November 2014)

Australian Accounting Standards

- AASB 5 Non-current Assets held for Sale and Discontinued Operations
- AASB 13 Fair Value Measurement
- AASB 116 Leases
- AASB 101 Presentation of Financial Statements
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
- AASB 116 Property, Plant and Equipment
- AASB 120 Accounting for Government Grants and Disclosure of Government Assistance
- AASB 136 Impairment of Assets (Encompassing Pronouncement AASB2016-4)
- AASB 138 Intangible Assets
- AASB 1031 Materiality
- AASB 1051 Land Under Roads

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## Policy Statement

**Financial Asset Classifications**

Non-current asset classes that Council have adopted for financial reporting are as follows:

| Financial Asset Class |
|---|
| Land and Improvements |
| Buildings and Other Structures |
| Plant and Equipment |
| Transport Infrastructure |
| Water Infrastructure |
| Sewerage Infrastructure |
| Intangibles |
| Work in Progress (WIP) |

**Accounting for Non-Current Assets upon Initial Recognition**

***Recognition and Control***

Prior to being brought to account as a Non-Current Asset the item must satisfy the following criterion:

- It must have physical substance or part of a network asset Intangible?
- The entity is able to receive the benefit and restrict other entities' access to the benefits provided by the item (control).
- It is probable that future economic benefits or service potential associate with the item will flow to the entity (future economic benefit).
- The item is not held for sale and it is expected to be used by the entity for greater than 12 months (non-current and not held for sale).
- The cost of the item can be measured reliably.
- Its value exceeds the Capitalisation Threshold.

***Measurement***

All assets received shall be measured as follows, in line with AASB 13 Fair Value Measurement:

a) Infrastructure shall be measured at cost.

b) Buildings shall be measured using the cost of construction.

c) Land shall be measured at cost, using the Unimproved Capital Value available from the rating and land titles system; or if this is not provided then a valuation should be obtained from an external valuer.

d) Park Infrastructure shall be measured using the cost of construction; if this is not provided then a valuation can be obtained utilising in-house knowledge.

e) Other Assets shall be measured using the cost of construction and if this is not provided then a valuation can be obtained utilising in-house knowledge.

***Capitalisation Threshold***

Items of low value are to be expensed on the basis of materiality. Capitalisation Thresholds have been established for all asset classes as detailed in Attachment A: Summary of Key Thresholds and Frequencies. ***Valuation Basis (Cost or Fair Value)***

All Non-Current Assets are to be valued either at Fair Value or Historical Cost. Land and Improvements are to be valued at Market Value, as detailed in Attachment A: Summary of Key Thresholds and Frequencies and Attachment B: Cost of an Asset.

***Grouped and Network Assets***

A grouped asset combines homogenous assets, providing the same type of service, where individually each asset falls below the recognition threshold but when considered as a whole are material in value (e.g. boardwalk lighting). If a decision is made to group assets and recognise as a non-current asset, all individual assets that meet the criteria of the group, regardless of when the asset was acquired, must be included in the group.

Network assets combines a chain of interconnected but dissimilar assets, connected for the provision of one simultaneous service, and may include individual assets that fall under the recognition threshold, but when considered as a network asset, the total value is material (e.g. a pump station, large play equipment).

The decision on whether to recognise assets as a group or network asset must be made by the Chief Finance Officer.

Recognition of group and network assets are at cost, and in the absence of observable information, cost method shall be used. ***Leased Assets***

AASB 16 requires recognition of all leases on the balance sheet. In the context of Asset Accounting, recognition of Lease Assets is considered for:

- Leases over a period of 12 months
- Leases of Material Value being above $100,000 present/capital
- Council has the right of obtain substantially all of the economic benefits from use of the identified Asset; and
- The right to direct the use of the identified asset

Attachment E: Leased Assets Decision Tree

***Contributed or Gifted Assets***

Assets acquired for no cost, nominal consideration and assets provided under Government grants are recognised at fair value. Recognition of these Assets are covered in Councils **Contributed Asset Policy**.

***Intangible Assets***

Assets that include software predominantly purchased from external providers, internally developed or purchased software transferred from a state or federal government agency shall be recognised at fair value, including all cost directly attributable in preparing the asset for its intended use. This will include purchase, fees to register a legal right, systems configuration and costs incurred in testing the system pre-production. Materiality Thresholds are set at $100,000 Attachment B: Cost of an Asset. ***Portable and Attractive Items***

Some items, whether above or below the capitalisation threshold, may be at risk of theft or loss. Items considered to be 'Portable and Attractive' are to be recorded in the respective 'Portable and Attractive Items Register'.

These registers are to be verified annually via a regular or rolling stocktake process. Attachment E:

Inventory Checks ***Major Plant and Equipment***

Major plant and equipment are assets that are of a high value and are prone to a high degree of price fluctuation or in danger of becoming obsolete.

For an item of plant and equipment to be treated as major plant and equipment it must satisfy the following criteria –

- Estimated useful life is greater than 5 years; and
- Cost is greater than $300,000. ***Complex Assets***

Complex assets include special purpose buildings, road infrastructure and water distribution networks. Assets that are capable of being broken down into components shall have each component separately identified with a separate useful life, depreciation and unit rate. Failure to depreciate these components separately would result in a material difference in the annual depreciation for that complex asset.

***Easements, Land under Roads and Reserves***

By their nature, easements are intangible and are to be accounted for in accordance with AASB 138 Intangible Assets.

Land under roads acquired on or after 1 July 2008 must be recognised in accordance with AASB 116 Property, Plant and Equipment. If a road is situated on a Road Reserve, it shall not be recognised on the Asset Register, as the land is registered under the Department of Natural Resources, Mines and Energy Queensland (DNRM) as a reserve, which council shall become a trustee of the land.

Any land such as Road Restriction accesses and Park Reserves, surrendered to the DNRM shall be disposed of from the Asset Register.

Under the Local Government Regulations (2012), Land that is a reserve and roads not owned by local government shall not have a value for a local governments general purpose financial statement.

## Accounting for Assets after Initial Recognition

### *Subsequent Expenditure: Capital v Maintenance*

Expenditure subsequent to initial acquisition is to either be expensed to the Profit and Loss Account as maintenance or capitalised against the asset as capital expenditure.

The criteria to be applied to determine whether costs should be capitalised or not is whether, when compared to the existing asset, the expenditure meets one of the following criteria –

- Extends the useful life of the asset, by a period of greater than 12 months; and
- Provides additional economic benefits or service capacity.

See Attachment B: Capital Vs Expenditure

### *Depreciation Method*

The depreciable amount of each component of all non-current assets are to be depreciated on a systematic basis over their useful life using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

In the absence of better information, it is assumed that assets will be depreciated in a constant pattern (straight-line) over the estimated useful life. Details of the methods used to depreciate each Asset Class are detailed in Attachment A: Summary of Key Thresholds and Frequencies.

Details of the approach adopted for each Asset Class is included in the supporting documents as detailed in Attachment C: Schedule of Valuation and Depreciation Methodology Documents.

### *Annual Reviews (including Impairment)*

Annual reviews of asset classes are to be performed by Asset Custodians for material changes to the financial and physical performance of assets under their care. Indication of Impairment shall be ascertained by the Asset Custodian, and/or reviewed by condition to ascertain the level of impairment by the Asset Coordinator and the appointed officer of Council. Material difference for changes in fair value is 10% of the relevant asset class.

If the carrying amount exceeds the recoverable amount the asset is to be written down to the recoverable amount and an impairment loss recorded in the Profit and Loss Account. However, for assets valued at fair value this action may be avoided by revaluing the individual asset (if impact is not material) or entire class of asset to fair value. These processes are summarised in Attachment D: Annual Reviews and Impairment.

***Assets Written Down to Nil but Still in Use***

Assets valued at fair value that have a written down value of zero and are still in use shall be re-lived and re-valued if the new estimate of written down value is of a material amount.

Assets valued at historical cost that have been written down to zero and are still in use shall be held at nil value and written off when the asset is no longer in service.

***Management of Work in Progress***

Quarterly review of Work in Progress is to be undertaken to ensure that projects are either currently in progress or are ready to capitalise. Project Managers are required to review projects monthly for reportable progress and when assets are ready to be put into service.

***Assets Held for Sale***

At the time when it is resolved that a non-current asset will be sold, and the disposal is likely to occur within 12 months, then that asset will be classified as a current asset and as an "Asset Held for Sale". Once classified as an 'asset held for sale' depreciation of the asset is to cease. The value of the "Asset Held for Sale" will be the lower of its carrying amount or fair value less costs to sell, as at the date of the resolution (refer to AASB 5). Any further costs incurred in the development of such asset will also be included as part of the value of the asset held for sale.

Items that are classified as assets held for sale are to be assessed on an annual basis at the end of the reporting period. If circumstances change and it is deemed that the asset will not be sold within the following 12 months, then the asset is to be re-classified as a non-current asset and valued in accordance with the relevant valuation methodologies.

**Revaluation of Non-Current Assets**

***Non-Current Assets Required to be Re-valued***

All Non-Current Assets are to be valued either at fair value or historical cost as detailed in Attachment A: Summary of Key Thresholds and Frequencies Statements and Attachment B: Cost of an Asset.

***Revaluation Threshold***

In order to minimise the cost associated with revaluations a materiality (revaluation) threshold has been established for each Asset Class. It is considered that the impact of revaluation of assets below this threshold would result in an immaterial impact in relation to the value of the entire class and therefore the cost of valuing these assets would exceed the net benefit gained. Revaluation thresholds have been established for all asset classes as detailed in Attachment A: Summary of Key Thresholds and Frequencies.

***Frequency of Revaluations***

AASB116 Property Plant & Equipment requires an annual review of values to be assessed for material changes in the carrying amount of non-current assets and a comprehensive valuation every three to five years. Council requires that, if assessed there is a material change of 10% in an asset class, or 5% in an asset category, this will necessitate a desk top revaluation of that category as reported in the financial statements.

A Valuation Plan will be presented each year to council, outlining the nominated asset categories for comprehensive valuation, methodology and valuation plan for that financial year. Attachment A: Summary of Key Thresholds and Frequencies Statements.

**Relationship between Financial Asset Register and other Asset Registers**

The asset register is to be reconciled to the financial asset register at the end of each month.

The Senior Accountant will be consulted on any 'found' assets, and the financial treatment reporting in the financial statements.

**De-recognition of Non-Current Assets (Disposal/Write Off)**

Assets are to be removed from the financial asset register and the underlying asset management component register (if applicable) on its disposal, trade-in, retirement, decommissioning, abandonment, confirmation of any theft or loss or when it is withdrawn from use and no future economic benefits are expected from the asset.

All decisions to derecognise an asset should be authorised and supported by appropriate documentation prior to removal from the Financial Asset Register.

The gain or loss on disposal is the difference between the proceeds and the carrying amount and should be recognised in the Statement of Comprehensive Income. Proceeds include cash received and trade-in value.

Any costs associated with the disposal of the assets are to be recognised as an expense in the Profit and Loss Account.

**Security and Physical Control over Non-Current Assets**

The Asset Custodians shall assume full responsibility for assets within their control. The nature of some asset classes, such as infrastructure assets which cannot be physically removed, are subject to regular physical inspection for asset management planning purposes and are inspected for revaluation purposes. As such they do not require a separate physical stocktake.

The remaining assets are required to be verified via an annual stocktake process which may include a rolling stocktake process conducted over a number of years.

Details of the assets subject to annual stocktake are included in Attachment E: Inventory Checks.

## Definitions

**Amortisation** – The systematic allocation of the cost of an intangible asset (less any residual value) over its useful life to reflect patterns of periodic consumption of the asset.

**Active Market** means a market in which all the following conditions exist -

- the items traded within the market are homogeneous;
- willing buyers and sellers can normally be found at any time; and

- prices are available to the public

**Asset** means a resource which is controlled as a result of past events and from which future economic benefits are expected to flow.

**Asset Category** Asset Group as of non-current assets of a similar type for the purpose of identification, data capture and maintenance.

**Asset Custodian** means an officer who has day-to-day management of an asset.

**Asset Class** A grouping of assets of a similar nature as defined by the Financial Statements.

**Asset Custodian** is the Officer of the Council who responsible for the control of the budget, maintenance, future direction and Council Benefits of the Asset or Asset Class.

**Asset Recognition** The process whereby a non-current asset is included in the financial asset register and therefore, recognised on Council's Statement of Financial Position.

**Asset Lifecycle** means the total period from when an asset is initially created till its final disposal. It includes all activities such as acquisition, maintenance, renewal, upgrade and disposal.

**CAPEX (Capital Expenditure)** means expenditure which, based on its existing condition, either extends the Useful Life of an asset or leads to an increase in its remaining service potential.

**Capitalisation Threshold** means the minimum amount whereby the value of a non-current asset must be capitalised. Amounts below the recognition threshold are to be treated as an expense.

**Carrying Amount** means the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. It is the Written Down Value of an asset as reported in the financial statements

**CGU (Cash Generating Unit)** means the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

**CEO** shall mean a person who holds an appointment as Chief Executive Officer of the Whitsunday Regional Council under section 194 of the Local Government Act 2009. This includes a person acting in this position.

**Component** means a significant part of a complex asset which has a different useful life or pattern of consumption from the other significant parts.

**Comprehensive Revaluation** means a revaluation which entails significant levels of physical inspection and evaluation of all appropriate aspects such as methodology, assumptions and Unit Rates.

**Condition Based Depreciation** means Depreciation Method used to determine Physical Deterioration and based on a correlation between the physical characteristics and condition of an asset.

**Consumption Based Depreciation** means Depreciation Method used to determine Economic Consumption and based on consideration of holistic (functionality, capacity, utilisation, obsolescence) as well as the physical characteristics and condition of an asset. Commonly referred to as the Advanced SLAM (Straight Line Asset Management) method.

**Contributed Asset** means an asset that is transferred at below or no cost, usually by way of contracts with Developers, through Government arrangements or by bequeath.

**Control** means the potential to contribute, directly or indirectly, to the delivery of relevant goods or services in accordance with the entity's objectives of a particular volume, quantity and quality to its beneficiaries. This includes the ability to restrict access of others to those benefits.

**Cost** means the amount of cash or cash equivalent paid or the fair value of any other consideration given to acquire an asset at the time of its acquisition or construction.

**Cost Approach** means the valuation technique based on determining the Replacement Cost of the gross service potential embodied within and asset and then adjusting for the level of service potential consumed to date. Also referred to as Depreciated Replacement Cost.

**DCF (Discounted Cash Flow)** means an "Income Approach" method used to calculate Market Value. It is based on analysis of cash inflows and outflows, discount rates, beta risk and alternative scenarios.

**Decommissioning** means the removal, demolition, or elimination of an asset's service potential, resulting from a specific management decision.

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

**Depreciated Replacement Cost** means the Gross Replacement Cost less any Accumulated Depreciated. It reflects the level of remaining service potential embodied in an asset based on the current replacement cost.

**Depreciation** means the systematic allocation of the depreciable amount of an asset over its useful life which reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity

**Economic Benefit** means for the purposes of this Policy includes Social, Environmental, Financial and Governance benefits

**Economic Life** means the total potential life and asset which includes its life after disposal by the current entity.

**Fair Value** means 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. This is also referred to as the Exit Price.

**Finance Lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred.

**Future Economic Benefit** means the potential to contribute, directly or indirectly, to the delivery of goods and services in accordance with the entity's objectives of a particular volume, quantity or quality to its beneficiaries.

**Grouped Assets** means groups of homogenous type assets where individually each asset falls below the recognition threshold but when considered as a whole are material in value. These differ from networked assets in that they are not required to be linked together in order to provide the service.

**Impairment Loss** means the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of Not-For Profit entities this is the difference between the Carrying Amount and Fair Value.

**Income Approach** means the valuation technique based on estimating the net potential income that will be achieved by the asset over its life.

**Infrastructure Assets** means typically large, interconnected networks or programs of composite assets. The components of these assets may be separately maintained, renewed, replaced or disposed of, so that the required level and standard of service from the network of assets is continuously sustained. Generally, the components and hence the assets, have long lives. They are fixed in place and often have no market value.

**Maintenance Expenditure** means expenditure which either does not result in an increase if useful life or service potential or is immaterial and enables the asset to keep performing on its typical lifecycle path.

**Major Plant and Equipment** means any plant or equipment of a type that is considered to be of high value

**Market Approach** means valuation technique where the Fair Value is determined based on observable market evidence of the sales history of the same or similar assets after adjusting for condition and comparability.

**Networked Asset** means groups of assets which are linked together to provide the overall service. Often the individual assets may fall below the recognition threshold but when considered as a whole are material in value. Common examples include power transmission and water reticulation systems including water meters.

**Non-Current Asset** means an asset held for use rather than exchange and which provides an economic benefit for a period greater than one year.

**NPV (Net Present Value)** Refer Discounted Cash Flow

**Officer of the Council** shall mean the representative of WRC Council that is authorised to act on behalf of Council in the transaction of ownership and control of the contributed asset.

**Pattern of Consumption** means the pattern in which the asset's future economic benefits are expected to be consumed by the entity. This may be either constant, increasing, decreasing or variable.

**Recoverable Amount** means the higher of an asset's fair value less costs to sell and its value in use. For Not-For-Profit entities (including most public-sector entities) this will be the Fair Value.

**Replacement Cost** means the cost of replacing the total potential future economic benefit of the existing asset using either reproduction or modern equivalents after taking into account any differences in the utility of the existing asset and the modern equivalent.

**Renewal** means expenditure which extends the useful life or increases the service potential of the asset beyond its current condition but not exceeding its current maximum design level. E.g. re-sealing of a road

**Residual Value** means 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

**RUL (Remaining Useful Life)** means the time remaining until an asset ceases to provide the required level of service or reaches the end of its economic usefulness. **Service Potential** Refer Future Economic Benefit

**Straight-Line Depreciation** means Depreciation Method used to determine the WDV where the pattern of consumption is considered to be constant over a period of time and the calculation is based on Age and RUL.

**Upgrade** means expenditure which extends the useful life or increases the service potential of the asset beyond its current maximum design level. E.g. Widening a road to add an extra traffic lane or improve safety.

**Useful Life** means 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.

**Value in Use** means the present value of the future cash flows expected to be derived from an asset or cash-generating unit. For Not-For-Profit (including public sector entities) where the value is not dependent on the cash generating capability the Value-In-Use is Fair Value.

**WDV (Written Down Value)** Refer Carrying Amount

**Whole of Lifecycle Cost** means all the costs associated with control of an asset. They include the costs of acquisition, operation, maintenance, renewal, upgrade and disposal.

## Relating Documents

Asset Management Policy
Contributed Asset Policy
Queensland Treasury Non-Current Asset Policies for the Queensland Public Sector, 2018.
NCAP1 Recognition of Assets
NCAP2 Complex Assets NCAP3
Valuation of Assets
NCAP4 Impairment of Assets
NCAP5 Depreciation and Amortisation
NCAP6 Disposal of Non-Current Assets

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## Effective Date

14 November 2018

Minute No.: OM 2018/11/14.12

## Review Date

November 2020 or as required by legislation changes

**Attachment A: Summary of Key Thresholds and Frequencies**

Note - all thresholds include a +/- variation of 10% to enable exercise of professional judgement as appropriate

| Financial Asset Class | Valuation Method | Capitalisation Threshold | Revaluation Threshold | Maximum Frequency of Revaluations | | Depreciation Method |
|---|---|---|---|---|---|---|
| | | | | Comprehensive | Interim | |
| Land and Improvements | Market Value | $1 | $1 | 5 Years | 1 Year | Non-depreciable |
| Buildings and Other Structures | Depreciated Replacement Cost | $7,500 | $10,000 | 5 Years | 1 Year | Straight-line |
| Plant and Equipment | Historical Cost | $7,500 | $10,000 | 5 Years | 1 Year | Straight-line |
| Transport Infrastructure | Depreciated Replacement Cost | $7,500 | $10,000 | 5 Years | 1 Year | Straight-line |

| | | | | | | |
|---|---|---|---|---|---|---|
| Water Infrastructure | Depreciated Replacement Cost | $7,500 | $10,000 | 5 Years | 1 Year | Straight-line |
| Sewerage Infrastructure | Depreciated Replacement Cost | $7,500 | $10,000 | 5 Years | 1 Year | Straight-line |

**Attachment B: Cost of an Asset Measurement at Recognition**

All assets that qualify for recognition are to be initially measured at its cost. However, where an asset is acquired at below or no cost (such as a contributed assets), the cost is its fair value at the date of acquisition. If there is no readily available market for the asset received, then the cost is its current replacement cost.

A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following: (a) the condition and location of the asset; and

(b) restrictions, if any, on the sale or use of the asset.

Where an asset was acquired in prior financial years and has yet to be recorded in the accounts, the asset is to be brought to account at current cost at the date of recognition. This can be obtained via either-

- Market Value if there is a readily available market; or
- Depreciated Replacement Cost if there is no readily available market.

Elements of Cost includes –

- Purchase price, including duties and taxes, after deducting discounts, rebates and reimbursable taxes;
- Any costs directly attributable to bringing the asset to its location and condition.

Costs directly attributable to the cost of an asset and therefore capitalised into the Balance

Sheet include – • Contract costs for construction;

- Cost of employee benefits for employees directly involved in the construction or acquisition of an asset; • Costs of site preparation;
- Detailed design including associated costs;
- Initial delivery and handling costs;
- Installation and assembly costs;

- Interest on a loan, funding a project which is incurred during construction, where the interest is deemed material to the overall cost of the project;
- Costs of commissioning the asset;
- Professional fees; and
- Tender costs.

Costs not directly attributable to the cost of an asset and therefore not capitalised into the Balance Sheet include –

- Costs of opening a new facility;
- Costs of introducing a new product or service (including advertising);
- Periodic software maintenance and licence agreement charges;
- General administration and overhead costs;
- Costs associated with feasibility studies, research studies, master plans, concept plans and investigations up to the point when it is decided that a capital project will be undertaken; and
- Inspection costs where no physical upgrade, refurbishment or replacement of an asset is undertaken.

In some instances, the capitalised cost of an asset should include an initial estimate of the cost of dismantling and removing the asset and restoring the site on which it is located. Such costs should only be capitalised when –

- They can be reliably estimated,
- Are material in amount or nature, and
- Where a clear obligation exists (predominantly through a legislative or environmental obligation) at the time an asset is first put into use.

| **Example Costs Incurred** | **Treatment** |
|---|---|
| Cost to purchase an asset (including import duties, non-refundable purchase taxes) minus any trade discounts and rebates | Capitalise – this represents initial cost to acquire the asset |
| Initial delivery and handling of an asset | Capitalise – these costs are directly attributable in bringing the asset to the location necessary for it to be capable of operating in its intended manner |
| Installation and assembly of an asset | Capitalise – directly attributable in bringing the asset into the condition necessary for it to be capable of operating in its intended manner |
| (Initial) testing of whether the asset is functioning properly | Capitalise – directly attributable in bringing the asset into the condition necessary for it to be capable of operating in its intended manner |

| | |
|---|---|
| Removing and replacing pipes owned by another entity in the process of constructing a dam | Capitalise – necessarily incurred in completing the project of building the dam (i.e. unavoidable in constructing the dam) |
| Major refurbishment of a floor in a building resulting in increased capacity (accommodates more staff after refurbishment) | Capitalise – improves the condition of that floor of the building beyond its originally assessed standard of capacity through increased annual service potential |
| Costs incurred in training staff | Expense – not directly attributable in preparing the asset for use |
| Minor works done to maintain the asset to ensure it continues at the current level of service until the end of its useful life | Expense – does not improve the condition of the asset beyond its originally assessed standard of performance or capacity i.e. it does not increase the annual service potential, nor does it increase its useful life |
| Property searches in preparation of selling property (currently not yet in “held for sale” class) | Expense – does not improve the condition of the property beyond its originally assessed standard of performance or capacity i.e. it does not increase the annual service potential nor does it increase its useful life |
| Repainting walls in a building | Expense – maintaining the condition of the building and does not improve the condition of the building such that it increases its annual service potential or its useful life |
| Purchase price (including import duties, nonrefundable purchase taxes, minus any trade discounts and rebates) | Capitalise – this represents initial cost to acquire the asset |
| Material and services in generating the asset | Capitalise – directly attributable in preparing asset for its intended use |
| Fees to register a legal right | Capitalise – directly attributable in preparing asset for its intended use |
| Costs incurred in testing a system in preproduction | Capitalise – this exercise forms part of the development phase (AASB 138 paragraphs 57 and 59) |
| Systems configuration | Capitalise – this is part of building/developing the system and is directly attributable in preparing the system for its intended use |
| Costs incurred in examining a viable option for replacing a system | Expense – investigation undertaken and is part of the research phase – unable to demonstrate that an intangible asset exists that will generate probable future economic benefits |
| Training | Expense – not directly attributable in preparing the asset for use |

| | |
|---|---|
| 40 (annual) Software user licences costing $2,500 each | Expense – these individual licences do not meet the recognition threshold for intangible asset. They should not be grouped together for capitalisation as they do not satisfy the definition of a network |
| Costs incurred in documenting policies and guidelines | Expense – these activities are in connection with the development of an asset but are not necessary in preparing it for use |

Where an asset is used to produce inventories (for example, a quarry) any restoration or removal cost capitalised on acquisition should not include restoration or removal costs that arise through actual operation of the asset. These costs are to be systematically recognised as an expense over the period of asset operation.

**Attachment C: Schedule of Valuation and Depreciation Methodology C1. Comprehensive Valuations**

The valuation and associated depreciation expense calculations must be prepared in accordance with the accounting standards at Fair Value. Fair value is defined as –

> "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"

Depending upon the nature of the specific asset the valuation approach may include the adoption of a singular or multiple techniques.

- The market approach applies where there is a principal market which provides observable evidence of the Fair Value of the asset.
- The income approach has been applied for assets where the income generating capability of the asset provides the best estimate of the assets Fair Value.
- The cost approach is used for assets which are not commonly traded. Typically these include assets that public and not-for-profit sectors entities use to provide services to the public for no or minimal charge.

***C1.1 Market Approach (Direct Comparison Approach)***

- Evidence of market value was obtained from the sales evidence of similar or reference assets. The asset was assessed in terms of the factors relevant to a market participant and a value determined after adjusting for the difference in these factors embodied within the asset and the reference assets.

***C1.2 Income Approach (Capitalisation of Income)***

- A Net Present Value is calculated for each asset. This included analysis of – • the estimate of future cash flows

- expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows
- the time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e. a risk-free interest rate).
- the price for bearing the uncertainty inherent in the cash flows (i.e. a risk premium).
- other factors that market participants would take into account in the circumstances. This includes the requirement for the assets to be returned at the expiry of the lease in a good and reasonable condition.

***C1.3 Cost Approach***

This method is based on determining the Replacement Cost of the modern equivalent (or cost of reproduction where relevant) and then adjusting for the level of consumed future economic benefit and impairment.

In accordance with the depreciation requirements of the AASB 116 Property, Plant and Equipment standard, "complex assets" are componentised and depreciated separately. This may include further splitting each component into the shortlife and long-life parts to differentiate between that part of the component that is renewed and that part which is recycled. As they have a different useful life they are to be depreciated separately.

To determine the Fair Value the following process should be followed –

- Determine the replacement cost (gross)
- Determining the split between short-life and long-life parts based on planned asset management strategies.
- Determine the depreciable amount for each part by assessing the residual value (typically zero)
- Assess the level of remaining service potential of the depreciable amount of each component (short-life and long-life parts).
    - For the short-life part this is based on an overall condition index rating that considers both the holistic factors (functionality, capacity, utilization, obsolescence, etc.) and component specific factors (such as physical condition and maintenance history).
    - For the long-life part the valuer uses professional judgment to estimate the level of remaining service potential (RSP%). This is typically based on an estimated cost to bring the part back to 'as new' (as a market participant would consider when pricing the asset) but would also take into account any indicators of obsolescence. If the Council intends to continue to renew the component, then the cost to bring the long- life part back to 'as new' is likely to be nil and therefore the RSP% of the long-life part is likely to be assessed as

100%. However, if the asset was unlikely to be renewed or there are signs of obsolescence the assessment of the RSP% is adjusted accordingly.

- Summing the calculated value of the short-life part and long-life part together to determine the value of each component
- Summing the value of each component together to determine the Fair Value (Current Replacement Cost)

### *C2. Desktop Valuations*

When a valuation is undertaken as a 'desktop update' the valuation is produced by indexing the various unit rates and adjusting the asset register for additions, deletions, changes in consumption score and other assumptions.

The Fair Value is then determined on the same basis as described for a comprehensive valuation with the following exception.

- If the overall condition index score remains unchanged from the previous valuation the valuation will adjust for the amount of depreciation expense which would have been charged to the asset since the last comprehensive valuation. i.e. If the valuation is 12 months later the valuation will calculate the value (as per the comprehensive valuation approach) and then deduct 12 months of depreciation expense.
- If, however, the overall condition index score has changed – this is interpreted as being more up to date than the previous consumption score and the valuation does not adjust for additional depreciation. For example –

  the asset may have been subject to major CAPEX during the year and after the work was completed the consumption score of the asset was updated to reflect the work undertaken. Likewise, the asset may have experienced an impairment event and the overall condition index was updated to reflect the event.

### *C3. Depreciation Methodology*

- Depreciation expense estimates are determined using the straight-line method of depreciation.
- Depreciation is calculated at the component level using the following formula –

  *Depreciation Expense = (Gross Replacement Cost less Residual Value) / Useful life*

- If the component has been further split into short-life and long-life parts depreciation is estimated for both parts of the component.

### *C4. Review of Depreciation and Amortisation Parameters*

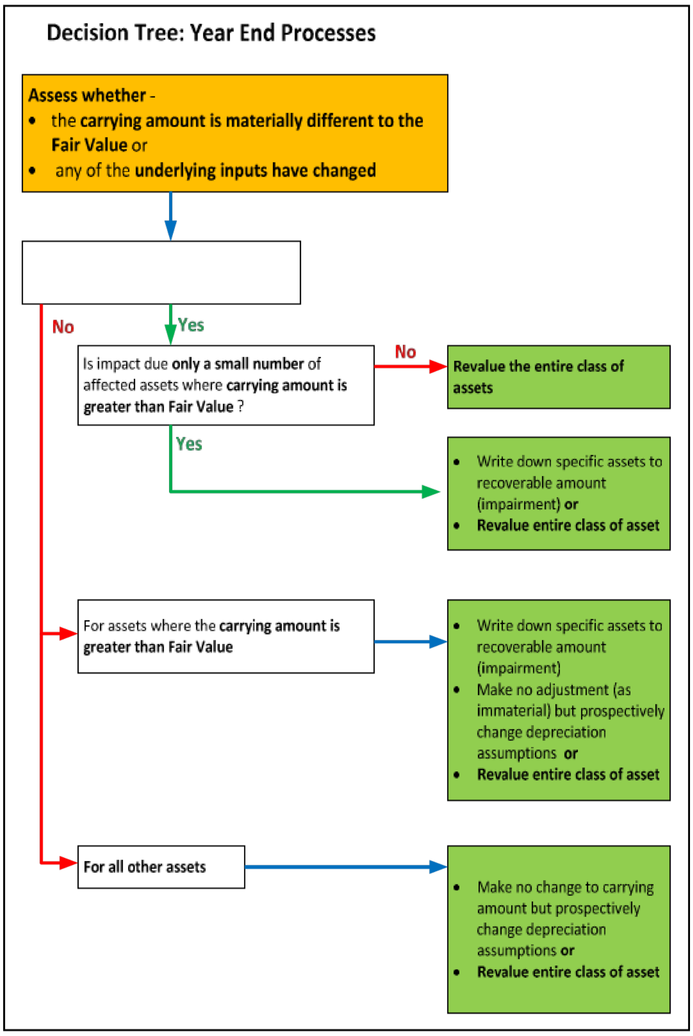
Asset depreciation and amortisation parameters, useful lives, asset condition (used to assess remaining useful lives) and residual values are to be reviewed with sufficient regularity to ensure they are representative of current conditions and expectations at the end of each financial year.

The useful life of an asset or asset component is determined by its expected use by Council and provides the basis for systematically allocating straight-line depreciation or amortisation. The useful life must be based on the physical asset or component in service and not the useful life of any modern equivalent.

Useful life may be different to an asset's design life or economic life. For example, a bridge may be replaced when it reaches a certain condition rating, notwithstanding that the bridge could continue to be used for a further period of time. The following should be considered when establishing and reviewing the useful life of an asset:

- Design life – period of time over which the asset can be expected to last physically, assuming adequate maintenance
- Technical life – period of time over which the asset can be expected to remain effective due to obsolescence
- Economic life – period of time Council intends to use the asset before disposal or decommissioning based on optimal economic factors. For example, trade a vehicle prior to being four years old.
- Maintenance and condition inspection programs – Council's investments or otherwise made to maximising the service potential of an asset across the lifecycle of the asset. Greater useful lives could be expected for assets that are regularly inspected and maintained.
- Local environmental conditions that may increase or decrease the physical deterioration of the asset.

Given the material impact on the financial statements, Council must adopt estimated useful lives. The adopted useful lives must then be used consistently throughout asset management systems.

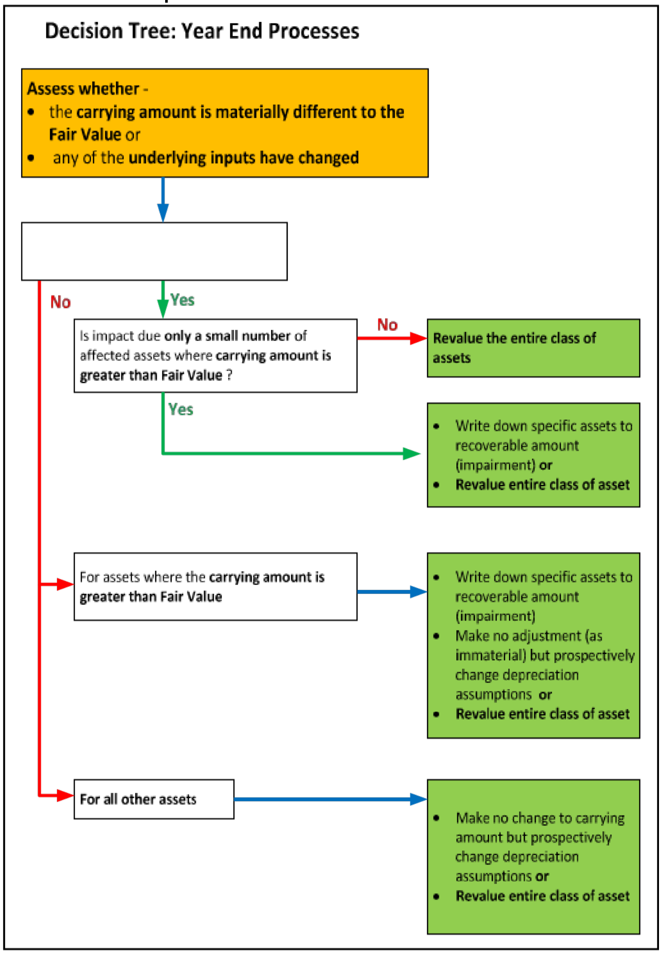



### Attachment D: Annual Reviews and Impairment

At least at the end of each financial year the following are required to be reviewed by Asset Custodians for all Non-Current assets.

- Replacement Cost / Unit Rates
- Condition / Consumption Score
- Pattern of Consumption
- Useful Life
- Residual Value
- Recoverable Amount (if there are indicators of Impairment)

If the assessment results in a change to any of the assumptions the impact of the changes need to be considered in light of the Fair Value. Additionally, if there are indicators of Impairment the following actions are required.




### Attachment E: Inventory Checks

The nature of some asset classes, such as infrastructure assets, is such that the asset cannot be physically removed, are subject to regular physical inspection for Asset Management Planning purposes and are inspected for revaluation purposes. As such they do not require a separate physical stocktake.

For other Asset Classes it is necessary to verify the existence of assets via an inventory check as per the following schedule.

# Asset Accounting Policy

## Corporate Services

CORP_28

| Asset Class | Sub-Class | Stocktake Type | Frequency |
|---|---|---|---|
| Motor Vehicles and Plant | All vehicles | Annual confirmation at year end | 1 Years |
| Plant and Equipment (excluding major plant) | All items | Rolling | 3 Years |
| Computers and Software | PCs, laptops, tablets | Rolling | 3 Years |
| Other Assets | All items | Rolling | 3 Years |

| COUNCIL POLICY | | | |
|---|---|---|---|
| **Date Adopted by Council** | 14/11/2018 | **Council Resolution** | LSP_CORP_19 |
| **Effective Date** | | **Next Review Date** | 14/11/2020 |
| **Responsible Officer(s)** | | **Revokes** | LSP_CORP_19 |
| **Public Consultation: Yes / No** | | | |