POLICY

Policy Name	Asset Accounting Policy
Policy Category	Governance
Department / Officer	Office of the Chief Executive Officer
Date Adopted	28 June 2009
Date/s Reviewed	20 September 2010; 26 September 2011; 28 April 2014; 27 November 2017; 24 May 2021
Review Frequency	Every three years
Strategic Plan Reference	Community Plan 2030 Aspiration 5 – We have services and infrastructure that meet our community's needs Aspiration 6 – We are a financial sustainable and well-governed organisation
Attachments	Nil

1. Purpose

The purpose of this Policy ensures that Council's non-current assets are recognised and accounted for in accordance with *Australian Accounting Standards* and the *Local Government Act 1999* and *Local Government (Financial Management) Regulations 2011*.

2. Scope

This policy applies to the acquisition and accounting treatment of Council's non-current assets, to ensure they are managed in an efficient and financially responsible manner, and that financial information related to non-current assets are presented consistently.

3. Policy Statement (Summary)

The City of Victor Harbor has an obligation to ensure that existing assets are managed efficiently, and that decisions regarding the acquisition of new assets and the sale and maintenance of current assets are undertaken in an open and transparent manner. Sound asset management is the key to the financial sustainability of every Council.

Council's non-current assets shall be recognised, capitalised and revalued in accordance with the Australian Accounting Standards and this Policy.

4. Legislation and Compliance

- *Australian Accounting Standards Board (AASB)*
  AASB13 – Fair Value Measurement
  AASB16 - Leases
  AASB116 – Property, Plant and Equipment
  AASB136 – Impairment of Assets
  AASB138 – Intangible Assets
  AASB1051- Land Under Roads

- *Local Government Act 1999*
  Section 124 – Accounting records to be kept
  Section 127 – Financial Statements
  Section 139 – Investment powers

- *Local Government (Financial Management) Regulations 2011*
  Clause 11 – Accounting Standards
  Clause 12 – Revaluation of assets

5. Definitions

Accumulated Depreciation means the total of all the annual depreciation that has been applied to the asset since the asset has been used by the entity.

Asset means 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. The three elements of an asset are:

- future economic benefits (goods and services provided by the asset)
- control by the entity (ability of entity to benefit from future economic benefits)
- occurrence of a past event (asset must be in existence)

Residual Value (where applicable) of an asset is 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.

Carrying Amount means the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation means the systematic allocation of the depreciable amount of an asset over its useful life.

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

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..

Impairment Loss means is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Maintenance means recurrent operating expenditure such as repairs, fuel, power, materials, labour, overheads and general services. It includes both reactive maintenance and planned maintenance programs and non-capitalised minor equipment purchases.

Property, Plant and Equipment are tangible items that:
(a) are held for the use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) are expected to be used during more than one period

Right-of-Use Assets means an asset that represents a lessee's right to use an underlying asset for the lease term.

Useful Life means the period for 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.

6. Policy Content

The *Local Government Act 1999* requires all Councils to develop and adopt infrastructure and asset management plans covering a period of at least ten years. In addition, Councils are required to adopt long term financial plans also covering a period of at least ten years. Both of these documents form part of Council's strategic management plans.

AASB 116 requires that a distinction 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. This distinction is a critical component in the determination of financial sustainability of a Council.

6.1 Recognition of an Asset

An asset is recognised in the balance sheet when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

An asset that qualifies for recognition will be initially recorded at cost at the date of acquisition, including costs directly attributable to bringing the asset to the location and condition ready for operation by the Council.

Where an asset is acquired at no cost, at significantly less than fair value, the cost is its deemed fair value as at the date of acquisition.

Assets with an economic life in excess of one year will be capitalised where the cost of acquisition exceeds materiality thresholds set by Council for each type of asset.

No capitalisation threshold is applied to the acquisition of land or interests in land.

Council has elected not to recognise land under roads in accordance with the deferral arrangements available under AASB 1051. As at 1 July 2008, Council has elected not to recognise any values for land under roads acquired before the commencement of AASB 1051.

6.1.1 Material Levels for Capitalisation

Material levels for capitalisation of assets are:

Asset type	Material level
Software	$50,000
Buildings	$10,000
Roads, Drainage and other Infrastructure	$10,000
Major Plant and Equipment	$5,000
Minor Plant and Equipment	$1,000
IT and Office Equipment	$1,000
Furniture and Fittings	$1,000
Other	$1,000

6.1.2 Individual Assets

Individual assets not meeting threshold limits may be capitalised as a group asset, if the total value of the items exceeds threshold levels (eg 200 hall chairs).

Additionally, where there is expenditure on individual assets that falls below the materiality threshold for that asset class, but operate together as a network or asset group, that total expenditure can be capitalised, for example a computer network, bulk furniture or stormwater pumps.

6.1.3 Intangible Assets

Intangible assets, such as software, will be recognised subject to AASB138. Research will be recognised as an expense when it is incurred.

Development activities including configuration, coding, installation and testing will be capitalised where it can be demonstrated that the asset meets the criteria within AASB138.

Generally, software costs will be recognised as follows:

- Research, investigations, feasibility, evaluation etc will be expensed as the costs are incurred.
- Materials, services and internal resources consumed in the development of the software including external / third party fees, software purchase costs, data conversion, migration and testing will be recognised as having probable future economic benefits and thus be capitalised.

6.2 Asset Classes

AASB 116 requires Council's assets to be classified into classes. Council has nominated the following financial classes of assets:

Category	Financial Class	Assets Included
Land	Land	Land
Buildings	Buildings	Internal and external structure, roof, internal and external finishes and building services
Infrastructure	Roads	Sealed and unsealed - pavement base and surface
	Kerbing	Kerbing and watertable
	Footpaths	Footpaths, bikeways and pram ramps
	Bridges	Bridges and major culverts
	Stormwater Drainage	Pipes, pits, retention basins, drainage channels, levees, culverts
	Open Space	Irrigation, reserve furniture, playgrounds, walking trails, cemetery etc
	Carparks and Traffic Controls	Carparks, lighting, traffic signals, median strips, roundabouts etc
	Other Infrastructure	Coastal, depot and miscellaneous
Plant and Equipment	Plant and Equipment	Major plant and equipment Minor plant and equipment IT and office equipment
Furniture and Fittings / Other	Furniture and Fittings	Office Furniture
	Artworks	Art Collection
	Library	Library Books and Materials

6.3 Asset Depreciation

Other than land and excluded assets under section 6.1, all recognised infrastructure, property, plant and equipment assets will be systematically depreciated over their useful lives in a manner that reflects the consumption of the service potential embodied in those assets. Residual values (where applicable) are based on the estimated value of an asset at the end of its useful life.

6.3.1 Depreciation

Depreciation is recognised on a straight line basis. The periods of depreciation for building and infrastructure assets have been estimated based on industry standards and consultancy advice. Depreciation rates may be varied for specific assets where asset quality, environmental and/or operational conditions require other than standardised treatment.

6.3.2 Useful Lives and Residual Values

Useful lives and residual values for each class of asset are reviewed as part of the annual asset revaluation process and are included in the Asset Register which is updated following adoption of the annual financial statements each year.

Category	Class	Useful Life (Years)	Average Annual Depreciation Rates (%)
Land	Land	N/A	N/A
Buildings	Buildings	10 - 100	1.00 – 10.00
Infrastructure	Roads	10 – 60	1.67 – 10.00
	Kerbing	60 – 70	1.43 – 1.67
	Footpaths	30 – 50	2.00 – 3.33
	Bridges	80 – 100	1.00 – 1.25
	Stormwater Drainage	80 – 100	1.00 – 1.25
	Open Space	5 – 40	2.50 – 20.00
	Carparks and Traffic Controls	20 – 45	2.22 – 5.00
	Other Infrastructure	2 -100	1.00 – 50.00
Plant and Equipment	Plant and Equipment	2 – 20	5.00 – 50.00
Furniture and Fittings / Other	Furniture and Fittings	5 – 10	10.00 – 20.00
	Artworks	N/A	N/A
	Library Materials	10 - 15	6.67 – 10.00

6.4 Asset Impairment

Impairment is the decline in the future economic benefits or service potential of an asset, over and above the use reflected through depreciation (e.g. a Council asset is damaged in a natural disaster and the carrying value is no longer valid).

AASB 136 requires that a Council assess at each reporting date whether assets under its control may be impaired. External indicators for impairment could be as a result of significant adverse changes in the technological, market, economic or legal environment. Internal indicators for impairment could include obsolescence or physical damage of an asset.

Indicators may provide evidence that an asset is of no benefit to the community or that plans to replace or dispose of the asset will require the re-assessment of its useful life. If any such indication exists, the Council shall estimate the recoverable amount of the asset.

Impairment loss shall be recognised when the recoverable amount of an asset is less than its carrying amount. An impairment loss is recognised in the Income Statement, unless the asset is carried at a revalued amount, when it is to be treated in the same way as a revaluation decrement against the same asset. An impairment loss can be reversed in subsequent years.

6.5 Measurement after recognition

AASB 116 requires revaluations to be undertaken with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from that which would be determined using fair value at the reporting date and for the entire class of asset to be revalued simultaneously.

Determining the frequency of valuations depends on striking a balance between having relevant and timely information, and the cost of obtaining such information. It is appropriate to provide for periodic comprehensive revaluations with interim revaluations based on specific indices.

AASB 116 requires that comprehensive revaluations every three to five years may be sufficient for non-current assets that experience only insignificant changes in fair value. It also provides that a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and revaluations are kept up to date.

Council intends to conduct comprehensive revaluations on the following basis:

- Land and Buildings to be revalued by external valuers at intervals of no more than four years;
- Infrastructure to be revalued by internal staff and signed off by an external valuer at intervals of no more than four years;
- Artworks to be revalued by external valuers at intervals of no more than four years;
- Plant, equipment, furniture and fittings assets are not to be subject to revaluation, as they have relatively short useful lives. Council will hold these assets at historical cost.

6.6 Leases

In accordance with AASB16 Leases, all leases will be capitalised by recognising a Right of Use asset together with a liability for the present value of the lease obligation.

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

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

Exceptions to the capitalisation rule are short term leases with a period of 12 months or less, and low value underlying assets such as personal computers, small items of office furniture and telephones.

6.7 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.*

6.8 Disclosure Requirements

The disclosure requirements shall be in accordance with AASB 116 - Property, Plant and Equipment.

7 Risk Management

Council's Asset Management Plan and Long Term Financial Plan ensure that the future financial and management needs of Council's assets are documented. Council's Asset

Register provides a comprehensive listing of the Council's assets which assists in the prevention of unauthorised use and theft of its assets.

8 Implementation/Delegations

The Chief Executive Officer is delegated the authority to implement this Policy.

9 Related Documents

Asset Management Policy
Asset Management Plans
Risk Management Policy
Community Plan 2030
Ten Year Capital Works Program
Disposal of Land and Other Assets Policy
Procurement Policy

10 Availability of Policy

This policy is available on Council's website at www.victor.sa.gov.au. It may also be inspected or purchased at the Principal Office of the Council at 1 Bay Road, Victor Harbor.