ASSET ACCOUNTING POLICY

ECN DSID:	4138482
First Issued / Approved:	22/06/2021
Last Reviewed:	22/06/2021
	C220621/2326
Next Review:	21/06/2025
Responsible Officer:	Manager, Financial Services
Date Placed on Webpage/ Intranet:	23/06/2021

1. PREAMBLE

The asset accounting policy prescribes the required accounting treatment of non-current assets that provide future economic benefits to City of Holdfast Bay Council and the community.

1.1 Background

Council has an obligation to ensure that its assets are managed and maintained efficiently, and that decisions regarding the acquisition of new assets and the sale of existing assets are undertaken in an open, accountable and transparent fashion. As sound asset management is key to financial sustainability Council has adopted an Asset Management Plan which is incorporated into the Long Term Financial Plan and Annual Business Plan. An asset accounting policy ensures a distinction is made between expenditure on long lived assets and expenditure on goods and services for immediate consumption. This is important in determining the cost of providing services for Council's annual budget.

1.2 Purpose

The purpose of this policy is to provide guidance, clarity and consistency regarding the treatment of capital expenditure, depreciation, revaluations, disposals and acquisitions when accounting for non-current assets. It will ensure Council is compliant with its requirements under Australian Accounting Standards and the *Local Government Act 1999*.

1.3 Scope

This policy generally impacts upon all Council employees and contractors. Specifically, the policy is directly applicable to Council officers who have asset management and asset accounting responsibilities.

1.4 Definitions

Asset – resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow.

Asset Class – grouping of assets of a similar nature in to categories for asset management and accounting purposes.

Asset Recognition Threshold – when the value of a new asset reaches a determined cost it is capitalised, below this cost and the value is expensed.

Council – City of Holdfast Bay

Depreciated Current Replacement Cost – current cost of replacement or reproduction of an asset, less deductions for physical deterioration of the asset.

Depreciation – the systematic allocation of the value of an asset over its useful life.

Fair Value – equates to market value if a readily available market exists or depreciated current replacement cost where no market exists.

Financial Asset Register – catalogue of financially recognised non-current assets and related information used primarily for financial accounting purposes.

Future Economic Benefit – the goods and services to be provided by the asset, whether or not the entity receives a net cash inflow for their provision.

Historical Cost – a measure of value where an asset is recorded at its original cost and is not periodically revalued.

Impairment – decrease in service potential of an asset as a consequence of an irregular event or catastrophe, resulting in its recoverable amount being less than its carrying amount.

Market Value – the price that would be received to sell an asset in an orderly transaction between market participants.

Network of Assets – a chain of interconnected assets connected for the provision of the one simultaneous service. Individually, these assets are below the recognition threshold, but are accounted for in the financial statements due to their collective value.

Non-current Assets – assets that are not expected to be fully consumed, realised, sold or otherwise disposed of within one financial year.

Revaluation – the process of determining the value of existing assets.

Useful Life – the time period in which an asset is expected to be available for use.

Works in Progress – capital works not completed within the financial year and carried over in to the next financial year.

1.5 Strategic Reference

Culture: Being financially accountable
Culture: Supporting excellent, efficient operations

2. PRINCIPLES

2.1 General Principles

In the accounting treatment of its non-current assets Council is required to adhere to standards set by the Australian Accounting Standard Board (AASB). Any discretionary treatment is required to be reasonable and defensible.

2.2 Recognition of an Asset

An asset is recognised in the Statement of Financial Position when it is probable that the future economic benefits will flow to the entity and the asset has a cost that can be measured reliably.

The asset must have a useful life greater than one year and meet the value of the Asset Recognition Threshold – see Table 1 for details. The threshold is set to avoid insignificant non-current assets being recognised in the financial asset register. An exception is made for minor assets that form part of a larger, significant network of assets.

Assets below the Asset Recognition Threshold or with a useful life less than 12 months are classed as an expense in the operational budget and recognised as expenditure in the Statement of Comprehensive Income.

Council may acquire assets from a number of different sources: purchased, constructed or developed assets; contributed or donated assets; and assets not previously recognised but identified through revaluation, stocktakes or other processes.

A few asset types are not recognised due to the difficulty in ascribing them a value or because of the administrative burden involved: land under roads, trees and traffic signs.

2.3 Measurement at Recognition

All non-current assets are initially recognised at cost. For assets acquired at no cost or for nominal consideration, cost is determined as its fair value.

Cost is determined as the consideration given for the asset(s) plus costs incidental to the acquisition. When constructing an asset these costs may include restoration of a site, materials used, direct labour charges, architects' fees, engineering design fees and all other planning costs incurred.

Capitalisation of software whether purchased or developed internally will take account of installation and testing costs. This may include data conversion and migration, related travel costs and payroll costs of those employees directly associated with implementation and testing.

All assets will be recognised in the financial year they are acquired, however, capital works still in progress at the end of that period will be disclosed as a separate category within the financial statements at accumulated cost. Once the project is completed the total costs should be transferred from work in progress to the relevant property, plant and equipment asset class.

2.4 Subsequent Recognition

Each class of asset is subsequently measured at either Fair Value or Historical Cost – see Table 1 for details. All assets, except those carried at historical cost, are to be revalued at regular intervals to ensure the carrying amount reported in the Statement of Financial Position does not materially differ from its fair value. The period between valuations will not exceed five years.

Revaluations of non-current assets are carried out by an independent professionally qualified valuer with the exception of Library Lending Materials which are valued internally.

In accordance with AASB 13 the preferred valuation method is to use observable inputs where possible. This usually occurs when there is an observable market for the sale and purchase of similar assets. For the majority of Council's assets this is not applicable and these are valued using a depreciated current replacement cost approach – see Table 1 for details.

2.5 Depreciation

All non-current assets have a limited useful life with the exception of Land and Land Improvements. The straight-line depreciation method is adopted by Council to reflect patterns of consumption in a uniform manner over the useful life of an asset – refer Table 1 for details.

Asset depreciation parameters, useful lives, asset condition and residual values are to be reviewed with sufficient regularity to ensure that they are representative of current conditions and expectations at the end of each financial year. Remaining useful life of an asset should be reassessed whenever a major addition or partial disposal is processed.

Depreciation of an asset begins when it is available for use and able to provide economic benefits.

2.6 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.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount - the higher of the present value of future cash outflows or value in use. If an asset has been revalued, the impairment loss will be recognised by reducing the balance of any revaluation reserve for that class of asset. Otherwise the impairment loss is recognised as an expense in the Statement of Comprehensive Income.

2.7 Derecognition of Assets

An asset should be derecognised from the Statement of Financial Position and recorded as a disposal within the financial asset register when it is sold, scrapped, lost or stolen, destroyed, or decommissioned when no future benefits are expected.

Costs of disposal can be included when calculating the gain or loss arising from the derecognition of an asset. These may include real estate commission fees, dismantling costs, dumping fees and associated legal costs. Any gain or loss is recognised in the Statement of Comprehensive Income.

The disposal of non-current assets requires appropriate authorisation as detailed in Council's Disposal of Land and Assets Policy.

2.8 Table 1 – Asset Classes and Rubrics

Asset Financial Class	Asset Recognition Threshold	Useful Life (Years)	Measurement Model	Valuation Approach
Land	$1	N/A	Fair Value	Market Value
Buildings				
- Masonry Construction	$10,000	50 - 170	Fair Value	Market Value & Current Replacement Cost
- Other Construction	$5,000	20 - 60	Fair Value	Market Value & Current Replacement Cost
Infrastructure:				
- Stormwater Drainage	$5,000	50 - 150	Fair Value	Current Replacement Cost
- Roads	$5,000	15 - 300	Fair Value	Current Replacement Cost
- Footpaths	$5,000	10 - 60	Fair Value	Current Replacement Cost
- Kerb & Guttering	$5,000	50 - 100	Fair Value	Current Replacement Cost
- Bridges	$5,000	100	Fair Value	Current Replacement Cost
- Car Parks	$5,000	15 - 90	Fair Value	Current Replacement Cost
- Traffic Control	$5,000	15 - 80	Fair Value	Current Replacement Cost
- Open Space & Coastal	$5,000	5 - 100	Fair Value	Current Replacement Cost
Plant & Equipment	$2,000	3 - 25	Historical Cost	Not Applicable
Furniture & Office Equipment	$2,000	3 - 10	Historical Cost	Not Applicable
Library Lending Materials	$1	7	Fair Value	Current Replacement Cost

3. REFERENCES

3.1 Legislation

- *AASB 13 Fair Value Measurement*
- *AASB 116 Property, Plant and Equipment*
- *AASB 136 Impairment of Assets*
- *AASB 138 Intangible Assets*
- *Local Government Act 1999*
- *Local Government (Financial Management) Regulations 2011*

3.2 Other References

Asset Management Plan
Asset Management Policy
Disposal of Land and Assets Policy
Long Term Financial Plan