Asset Accounting Policy

Classification:	Council Policy
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Last Reviewed:	November 2022
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Responsible Officer:	Chief Executive Officer
Applicable Legislation:	• Local Government Act 1999 S124(1) • Local Government (Financial Management) Regulations 2011 • South Australian Model Financial Statements • Australian Accounting Standards AASB 116 and AASB 13
Related Policies/Procedures:	• Better Practice Model – Internal Financial Controls • Infrastructure and Asset Management Plan • Delegations Register

1. PURPOSE:

1.1 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. This 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.

1.2 This policy addresses the accounting treatment of non-current assets (infrastructure, property, plant and equipment) that provide future economic benefit to the Kingston District Council and the community.

2. LEGISLATIVE CONTEXT:

2.1 To ensure that Council can fulfil their statutory obligations under Section 124 (1) of the Local Government Act that states:

A Council must keep such accounting records so as to correctly and adequately record and explain the revenues, expenses, assets and liabilities of the Council; and keep its accounting records in such manner as will enable:

- *The preparation and provision of statements that present fairly, financial and other information and*
- *The financial statements of the Council to be conveniently and properly audited.*

2.2 Council can meet these obligations by developing and implementing effective internal financial controls in relation to the Asset Accounting.

2.3 This policy and associated procedures also assist in addressing the following risk areas highlighted in the Better Practice Model – Internal Financial Controls:

- Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all. The Fixed Asset Register does not remain pertinent.
- Fixed assets are not valued correctly.
- Depreciation charges are either invalid, not recorded at all or are inaccurately recorded.
- Fixed asset maintenance and/or renewals are inadequately planned.

3. SCOPE:

3.1 The following principles shall apply when accounting for Council's Fixed Assets;

- Assets shall be recognised and accounted for in accordance with Australian Accounting Standards and the details contained in this policy.
- All relevant legislative requirements are to be considered in Council's Financial Management Policies and Procedures.
- A key Internal Financial Control is segregation of duties. Key Financial duties will be segregated as per the suggestions within the Better Practice Model.

4. DEFINITIONS:

Fixed Asset	A physical item that is owned or controlled by Council, and provide or contributes to the provision of services to the community. Infrastructure, property, plant and equipment with an economic life longer than one year.
Asset	For the purpose of this policy is a fixed asset.
Capital Expenditure	Capital expenditure can be broken down into two categories • Costs incurred in the creation of a new asset – including design costs, planning and development compliance costs, construction costs. • 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.
Carrying Amount	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses
Cost	Amount of cash or cash equivalents paid for an asset. Or where an asset is acquired for no cost or nominal cost such as a contributed asset, then the fair value at the time of its acquisition or construction will be considered as the cost.
Depreciable amount	Cost of an asset less its residual value.
Depreciation	Measure of the average annual consumption of service potential over the life of the asset. Depreciation is not a measure of required expenditure in any given year.
Fair Value	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.
Group Asset	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.
Hull & Structure	The hull and structure component is the hull deck and other superstructure.
Register of Attractive Portable Items	A register of items which are attractive and portable, yet fall below the Capitalisation Thresholds.
Impairment Loss	Amount by which the carrying amount of an asset exceeds its recoverable amount
Infrastructure, Property, Plant and Equipment (IPPE)	Tangible items that are held for use in the production or supply of goods or services, or for administrative purposes and are expected to be used during more than one period.
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.
Mechanical	The mechanical component is the motors, pumps and cutters for the Dredge, and the motors and crane for the support vessel.
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 expenses as they are incurred.
Residual Value	Estimated amount that Council would currently obtain from disposal of the asset if the asset were already of the age and condition expected at the end of its useful life.
Useful Life	The period over which an asset is expected to be available for use.

5. POLICY STATEMENTS:

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

5.1 *Assets*

The Australian Accounting Standards Board (AASB) sets out the following explanation of an asset;

> *"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."*

There are specific elements that define an asset;

- 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 new cash inflow for their provision.
- 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.
- 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.
- Assets must have a useful life greater than one year to be capitalised.

5.2 *Recognition of an Asset*

The AASB state that;

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

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.

All fixed assets are initially recognised at cost. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.

The cost of an item of infrastructure, property, plant and equipment shall be recognised as an asset and capitalised when:

- It is probable that future economic benefits associated with the item will eventuate (the asset is 'ready for use'), and
- The cost of the item can be measured reliably

The cost of a fixed asset comprises:

- Purchase price, after deducting trade discounts and rebates
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating

Examples of directly attributable costs are:

- Cost of employee benefits arising directly from the construction or acquisition of the item
- Costs of site preparation
- Initial delivery and handling costs
- Installation and assembly costs
- Costs of testing whether the asset is functioning properly
- Professional fees

Capital works still in progress at balance date are recognised as other non-current assets and transferred to IPPE when completed ready for use.

The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and fixed overheads.

Council has elected not to recognise street signs, trees and library books.

5.3 *Derecognition*

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

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

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

5.4 *Depreciation*

AASB 116 (43) requires that 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.

AASB 116 (48) requires that the depreciation charge for each period shall be recognised in profit or loss. Internal Financial Controls also require that depreciation rates and methodology are to be reviewed by management annually to ensure that methods used remain appropriate.

AASB 116 (61) requires that the depreciation method applied to an asset shall be reviewed at least each financial year-end.

Two definitions are useful to understand the concept of depreciation.

They are;

- Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life
- The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

All non-current assets that have a limited useful life are systematically depreciated over their useful lives in a manner that reflects the consumption of the economic benefits provided by those assets.

Land has an unlimited useful life (see thresholds below) and thus will not be depreciated. The depreciation method applied shall be the straight-line basis.

5.5 *Asset Management Plans*
Council's Asset Management Plans will be regularly reviewed and assumptions updated to ensure they are relevant and give robust guidance to Council on future asset renewal needs.

5.6 *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.

5.7 *Capitalisation Thresholds & Useful Lives*
Assets with an economic life in excess of one year are recognised where the cost of acquisition exceeds the thresholds in the table below.

Useful lives of Fixed Assets will be regularly reviewed and the Asset Management Plans updated to reflect any significant changes. The useful lives of each asset component are set out in the table below:

Class of Asset	Asset Component	Recognition Threshold	Useful Lives (years)
Land		No Capitalisation threshold	Unlimited
Plant, Furniture & Equipment	Office Equipment	$10,000	5 to 10
	Office Furniture		10 to 20
	Vehicles		5 to 8
	Road Making Equipment		5 to 8
	Other Plant & Equipment		5 to 15
	Dredge Hull & Structure		50
	Dredge Mechanical		20
	Support vessel Hull & Structure		30
	Support vessel Mechanical		10
Buildings	Structure	$10,000	50
	Sub Structure		50
	Roof		50
	Fitout & Fittings		13
	Floor Coverings		13
	Electrical Services		25
	Services (Fire)		20
	Site Infrastructure		50
	Solar panels		30
Park Furniture and Ancillary	Bins	$10,000	10 & 15
	Benches		15
	Picnic Sets		30
	BBQ		20
Civil Infrastructure	Structures	$10,000	40 to 80
	Lighting		40
	Miscellaneous assets		25 to 40
Recreational	Play Equipment	$10,000	25
	Inflatable Pillow		40
Stormwater Drainage	Sump Bores	$10,000	80
	Pipes/ Drains		100

	Pits		80
Marine Structures	(Piers) Pontoons	$10,000	30
	Boat Ramps		60
	Sea Walls		250
	Pathways		100
	Groynes (Breakwater)		100
	Access Stairs		50
	Faun Trackway		30
Sewer Pump Station & Treatment Plant	Pumps	$10,000	20
	Pipework		50
	Valves		25
	Fittings		12 to 80
	Structure		20 to 80
	Lagoons		100
	Irrigation		30 to 40
	Wetwell		30 to 80
	Dump Point		20
Sewer Mains	Mains	$10,000	80
Kerbs	Spoon Drain	$10,000	80
	Barrier Kerb (water table and kerb)		80
	Edge Kerb (rollover kerb only)		80
Pathways	Surface	$10,000	100
	Gravel		10
	Sealed		20
	Hotmix		30
	Concrete		80
	Paving		50
Roadways	Formation	$10,000	1000
	Unsealed Pavement Base		20
	Unsealed Pavement Sub Base		40
	Sealed Pavement Sub Base		250
	Sealed Pavement Base		100
	Surface		30
	Protuberances		60
Car Parks	Pavement Base	$10,000	100
	Pavement sub base		250
	Surface		30
Bridges and Major Culverts	Structure	$10,000	80
	Surface		50
	Rails		50
Information Technology	Server Replacement	$10,000	5-8
Signage	Memorials & Signs	$5,000	15

The above capitalisation recognition thresholds do not apply to renewal works where the purpose of the work is to renew the asset. For example, a road may have a small segment that requires a spray seal (renewal). Even though the cost of the spray seal may be small (i.e. less than $10K) the expenditure is still treated as capital expenditure as the asset segment is being renewed not maintained.

5.8 *Revaluations*

When an asset is recognised, its 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. The fair value hierarchy is as follows:

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

Level 2: Inputs are other than quoted prices that are observable for the asset either directly or indirectly:

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in markets that are not active.

Level 3: Inputs are unobservable. Fair value is estimated using a valuation technique. Significant assumptions are used in the valuation based upon inputs that are not observable in the market. Inputs are developed based on the best information available in the circumstances.

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 cycle, but dependent on the asset class more frequent revaluations may be required. Desktop valuations using an appropriate indexation method will be performed annually between comprehensive valuations by independent professionally qualified valuer.

Management shall review the methodology and useful lives used in revaluations to ensure valuations are appropriate.

5.9 *Impairment*

Assets that have an unlimited useful life are not subject to depreciation but are reviewed 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.

5.10 *Land Under Roads*

AASB116 – Property, Plant and Equipment, paragraph 7 states that an asset should only be recognised if, and only if;

- It is probably that the future economic benefits associated with the item will flow to Council; and
- The cost of the item can be measured reliably.

A reliable method has been unable to be determined; hence land under roads is not recognised.

5.11 *Operational Costs – Maintenance Expenditure*

Maintenance is an operating expense representing day to day expenditure incurred in relation to the use of an asset which acts to retain or restore the usability of an asset in its new condition.

Example: In the case of a motor vehicle, fuel and regular services act to retain or restore the usability of the asset in its new condition but do not upgrade the model year of the vehicle and are therefore operational costs.

Example: the repainting of road markings, reactive maintenance and repair to a road (pothole repair, crack sealing and patching) or the cleaning and clearing of stormwater drains are examples of maintenance in relation to infrastructure works.

5.12 *New/Upgraded Assets and Renewal/Replacement Assets*

A new asset is additional to Council's previous assets held. An upgraded asset replaces a previously existing asset with enhanced capability or functionality, where an option existed for replacement without any enhanced capability or functionality.

Renewal or replacement of an asset occurs where a previously existing asset is replaced, giving a new asset with a new useful life, without enhancement of the service capability.

Examples:
The replacement of a 300mm stormwater pipe with a 500mm stormwater pipe results in an upgraded asset.

The replacement of a model 135J grader with a model 135K grader where the model 135J is no longer available would not result in an upgraded asset, despite the newer model having improved operational capability. This is a replaced asset.

The replacement of a road with a 6 metre width sealed surface with an 8 metre width sealed surface is part replacement and part enhancement. Therefore part replacement and part upgrade.

A wooden bridge over a small creek is replaced with large concrete culverts on an improved road alignment. The concrete culverts are the modern engineering equivalent of the former wooden bridge and are a replacement. The improved road alignment is an upgraded asset.

The planned resurfacing of a road segment, including preparation work and new spray seal. This is a renewed asset.

5.13 *Asset Register Integrity*

The following activities will assist in ensuring the integrity of Council's Asset Register;

- Fixed Assets will be regularly reconciled to the Fixed Asset Register.
- Access and on-going maintenance of the Fixed Asset Register will only be performed by authorised personnel.

5.14 *Group Assets*

It is recognised that Council assets such as office furniture and desk top IT equipment could be capitalised under the Group Asset provision. However, due to the immaterial benefit of capitalising these assets, Council's policy position is not to capitalise these assets.

5.15 *Register of Attractive Portable Items*

A register of items which are attractive and portable shall be maintained for the purpose of controlling and safeguarding items which by their nature are at risk of loss.

A stocktake of such items shall be conducted at least every two years.

Attractive portable items are items which are more likely to be subject to loss due to theft or misplacement and shall include items such as cameras, videos and communication equipment. This register will not only include assets which are capitalised but also those that fall below the threshold for capitalisation. The justification for inclusion and separate identification in the register pertains to the assets qualities of portability and potential high risk of loss given their attractiveness.

6. AVAILABILITY OF THE POLICY:

This policy will be available for inspection at the Council's principal office, 29 Holland Street Kingston SE, during ordinary business hours and on Council's website: www.kingstondc.sa.gov.au. Copies will also be provided to interested members of the community upon request, and upon such payment of the fee set by Council.