MOUNT BARKER
DISTRICT COUNCIL

TITLE: ASSET ACCOUNTING POLICY

1. PURPOSE

The purpose of this policy is to ensure that all Council owned assets are valued and depreciated in accordance with relevant Australian Accounting Standards ("the Standards") pursuant to Local Government Act 1999 under section 303(4).

2. SCOPE

This Policy is applicable to all Council owned assets.

The scope of this policy excludes 'right-of-use assets' as defined in AASB 16 Leases.

3. POLICY PRINCIPLES – OUR COMMITMENT

The Asset Accounting Policy establishes a decision-making framework to ensure that:

- **Asset Life** - That Council makes a distinction between costs incurred on long-lived assets and costs incurred on goods and services for immediate consumption;
- **Depreciation** - All depreciation estimates are prepared and maintained in accordance with the Standards and reviewed annually; and
- **Revaluations** - Are performed at a sufficient frequency to ensure that the carrying amount does not differ materially from the fair value at the reporting date.

4. DEFINITIONS

- **Amortisation** - The systematic allocation of the depreciable amount of an asset over its useful life (e.g. for an asset valued at $500,000 with a 5 year useful life the annual amount amortised would be $100,000 per annum).
- **Asset** - A resource with economic value that is owned or controlled by an entity with the expectation that it will provide a future benefit.
- **Asset Consumption Ratio -** *Value of infrastructure assets/gross current replacement cost of infrastructure assets.*

- **Asset Renewal Funding Ratio** - Capital expenditure on renewal or replacement of existing assets as a percentage of asset management plans allocation.

  Capital expenditure on renewal or replacement of existing assets / Asset Management Plan.

- **Asset Register** - A register for reliably recording inventory type details of an asset and may incorporate other information such as condition, valuation and location.
- **Carrying Amount** - The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
- **Cost** - The amount of cash or cash equivalents paid, or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
- **Depreciation** - The monetary value of an asset decreases over time (useful life) due to use, wear and tear or obsolescence. This decrease is measured as depreciation. Depreciation is the measure of 'using up' or consumption of the asset, in providing that asset to the community and is measured on an annual basis.
- **Depreciable Amount** - The cost of an asset or any other amount substituted for cost, less its residual value.
- **Fair Value -** Is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- **Gifted Assets** – Is an asset constructed by a party other than a Council (typically a developer) and transferred to Council to maintain.
- **Intangible Assets -** Are identified as non-monetary assets without physical substance. Some examples of intangible assets include; licences, intellectual property and computer software.
- **Maintenance** - Regular ongoing day–to-day work necessary to keep assets operating, and does not extend the asset's useful life e.g. road patching. This is an operating expense as this does not increase the value of the asset.
- **New Asset** - Is the creation of a new asset to meet additional service level requirements, e.g. a new building.
- **Non-current assets** - Are assets that have an estimated life of greater than one year. They also include some financial assets that are not expected to be recovered within a year of the reporting date.
- **Operations**: Regular activities of the council e.g. street sweeping, grass mowing, street lighting.

- **Renewal or replacement** - Of an asset is where a previously existing asset is replaced, or its service life extended, without enhancement of the service capability except where this is incidental and unavoidable. e.g. gravel re-sheeting, reseal, etc.
- **Residual value** - 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 at the end of its useful life.
- **Upgrade** - Is the enhancement of an existing asset to provide a higher level of service, e.g. sealing an unsealed road.
- **Useful life** - Is defined as the period over which an asset is expected to be available for use by the entity.

5. ROLES & RESPONSIBILITIES

Council:

Council is responsible for adopting the policy, allocating resources, and providing high level oversight of the delivery of the Council's asset accounting policy. The Council is also responsible for ensuring that organisational resources are appropriately funded to guarantee adherence with this policy.

Chief Executive Officer:

The Chief Executive Officer is responsible for resourcing the implementation of the asset accounting policy and supporting procedures.

General Manager, Infrastructure and the General Manager Corporate Services:

The General Manager, Infrastructure and the General Manager, Corporate Services are responsible for the application of the asset accounting policy and supporting procedures.

6. POLICY STATEMENT

6.1. This Policy applies the provisions of the Local Government Act 1999 (the Act) Section 124 (Accounting Records to be Kept) regarding Council's Assets and how financial information pertaining to Fixed Asset transactions and reconciliations are undertaken across all Council operations.

6.2. This Policy underpins how Council-treats various categories of transactions recorded on its fixed asset register and fixed asset transactions, culminating in their publication in the annual financial statements required under Section 127 (Financial Statements) of the Act.

7. POLICY PRINCIPLES
Depreciation

7.1. Recognition of Depreciation Expense:

- **Commencement** - Depreciation expense commences from the time the asset is first put into use or held ready for use. Work-in-progress will not be depreciated until the asset is first put into use or held available for use.
- **Cessation** - Depreciation of an asset ceases when the asset is fully depreciated, or if the asset is determined to be held for sale. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.
- **Calculation** - In calculating depreciation on infrastructure assets, each component of the asset which has a cost that is significant in relation to the total cost of the asset and has a materially different useful life, is to be depreciated separately.
- **Leasehold Improvements** - Where improvements are made to a leasehold property, these improvements will be allocated progressively over the unexpired portion of the lease or the useful lives of the improvements, whichever is the shorter. The unexpired period of the lease should include any options to extend the lease term when the exercise of the option is reasonably certain.
- **Non-Recognition Of Depreciation** - Council does not recognise depreciation on the following:
  - Inventories, as they are current assets;
  - Non-current assets whilst classified as held for sale;
  - Assets held pursuant to the terms of an operating lease;
  - Leases on intangible asset with an indefinite useful life; and
  - Land, works of art, rare books, manuscripts, unique historical and cultural objects where their service potential is not expected to diminish with time or use.

7.2. Impairment:

- An asset is impaired if the amount at which it is recognised in the Council's financial records is greater than its fair value. Council will ensure that the amount at which an asset is capitalised does not exceed its fair value. This will be reviewed on an annual basis and all impairment losses are to be shown in the operating statement as expenditure.

7.3. Depreciation Methodology:

- **Asset Lives** - All assets with a useful life of more than one year, including intangible assets are depreciated over the useful life of the asset in accordance with Accounting Standards.

Asset Useful Lives	
Asset Class	**(Years)**
Transport Assets	15 to 270
Buildings	20 to 300
Wastewater	5 to 100
Drainage	80 to 120
Recreation and Open Space	20 to 50
Plant & Equipment Software	5 to 20 3 to 10

- **Depreciation** - Are calculated on a "straight line basis" i.e. the replacement value divided by the useful life of the asset.
- **Asset Additions** - Any expenditure that increases the value of the asset, are depreciated over the remaining useful life of the asset to which it relates.
- **Useful Life** - The useful life of an asset will be reviewed at least at the end of each annual reporting period.

7.4. Revaluations

Revaluation Methodology:

- **Asset Valuation** - Council treat the valuation of assets in two ways:
  - ➢ Firstly, where an asset is carried at cost and has some useful life after it has been fully depreciated, revaluation of the asset will not occur.
  - ➢ Secondly, assets that are carried at fair value will be revalued to ensure assets are not fully depreciated before the end of their useful life.

- **Current Replacement Costs** - Are calculated using Council's own current contract unit rates, industry benchmarks and information supplied by other Councils where available. These costs are independently assessed by an appropriately qualified professional.

- **Condition Audits** - Are undertaken to determine the consumption of the asset and hence its fair value in respect to the replacement cost.

Frequency of Revaluation:

- **Fair Value Assets** - All assets carried at fair value are reviewed annually. To achieve this Council review replacement costs and apply incremental adjustments where material and appropriate for each asset class .
- **Condition Audits** - Are performed as per the asset management plans or where there is a material movement between the carrying value and fair value of the assets.

Revaluations and Accumulated Depreciation:

- **Accumulated Depreciation** - Following a revaluation the accumulated depreciation is restated proportionately to the gross carrying amount of the asset, so that the carrying amount of the asset after revaluation equals its revalued amount. This is a requirement to achieve a comparative in the calculation of the asset consumption ratio.

7.5. Capitalisation:

Recognition and Thresholds:

- An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.
- AASB 116 states:

  '*The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:*
  (a) it is probable that future economic benefits associated with the item will flow to the entity;
  and
  (b) the cost of the item can be measured reliably.'

- Council transfer assets to the asset register only when complete.
- Council recognises the capital cost of an asset comprises of:
  - **Purchase Price** - Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
  - **Directly Attributable Costs** - Any costs directly attributable to bringing the asset to the location and condition necessary (for example costs of site preparation, installation and assembly) for it to be capable of operating in the manner intended by council;

- **Employee Benefits** - Costs of employee benefits arising directly from the construction or acquisition of the item of property, plant equipment (for example project management costs to construct or acquire new/renew assets, in the case of gifted assets, project management and quality assurance for the delivery and receipt of community infrastructure etc)
- **Testing** - Costs of testing whether the asset is functioning properly, after deducting net proceeds from selling any items needed to bring the asset to that location and/or condition (for example pre-commencement operating costs prior to the asset being commissioned for use);
- **Demolition/Removal** - Costs associated with the dismantling and/or removal of the asset and restoration or rehabilitation of the site on which it was located; and
- **Gifted Assets** - AASB 116 provides for a specific example relating to Local Government entities where an asset may be gifted to Council at no or nominal measurable cost. When this occurs, Council's administration is obliged to recognise the asset at fair value.

- Council will classify all capital expenditure into the following categories:
  - New / Upgrade; and
  - Renewal.
- **Interest** – Interest expenses incurred on borrowings that are specifically used to finance the construction or acquisition of asset(s).

- **Threshold** - A capitalisation recognition threshold is applied to each asset type using the concept of materiality. Costs below these thresholds are accordingly treated as an operating expense. No capitalisation threshold will be applied to the acquisition of land or interest in land.

Asset Class:	Capital Threshold	Valuation Threshold
Transport Assets	$5,000	N/A
Buildings and other Structures	$10,000	$20,000
Wastewater	$5,000	N/A
Drainage	$5,000	N/A
Recreation and Open Space	$5,000	N/A
Plant & Equipment	$5,000	N/A
Software	$50,000	N/A

8. TRAINING / EDUCATION

Relevant staff will be adequately trained and qualified to implement and comply with this policy.

9. REVIEW

This Policy will be reviewed every three years; or

- the frequency dictated in legislation, or
- earlier in the event of changes to legislation or related Policies and Procedures or;
- if deemed necessary by the General Manager Corporate Services.

10. ACCESS TO THE POLICY

The Policy is available for public inspection at the Customer Service Centre, at the Local Government Centre, 6 Dutton Road, Mount Barker, South Australia and on the Council's website www.mountbarker.sa.gov.au

11. FURTHER INFORMATION

For further information on this Policy, please contact:

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<tr><td>Author</td><td>Steven Ireland</td><td>Manager Financial Services</td><td>24 February 2023</td></tr>
<tr><td>Responsible General Manager:</td><td>Alex Oulianoff</td><td>General Manager Corporate Services</td><td>19 April 2023</td></tr>
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<tr><td>APPLICABLE LEGISLATION AND RELATED DOCUMENTS:</td><td colspan="3">Local Government Act 1999
Local Government (Financial Management) Regulations 2011
Australian Accounting Standards

Related documents
Asset Management Policy
Disposal of Council Land and Other Assets Policy</td></tr>
<tr><td>COMMUNITY PLAN 2020-2035 REFERENCE:</td><td colspan="3">Governance & Leadership
GL 4.1 Manage assets and liabilities through a planned, long term approach
GL 4.2 Balance service levels for assets and programs against long term funding capacity</td></tr>
<tr><td>REVIEW CYCLE</td><td colspan="3">This Policy will be reviewed:
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It is recognised that from time to time circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this document, such a change may be made administratively. Examples include a change to the name of a Council department, a change to the name or a State or Federal Department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be by resolution of Council (if statutory) or the Chief Executive Officer (if administrative).</td></tr>
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	This Policy is available for inspection, during business hours at: Mount Barker District Council, Level 1, 6 Dutton Road, Mount Barker		