Aurukun Shire Council

Policy Title: NON-CURRENT ASSET ACCOUNTING POLICY

Policy Type: FINANCIAL
(Statutory, Financial, Administrative, Human Resources)

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Implementation Department		Officer Position	
Corporate Services		Finance Manager	
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1.0			

1. POLICY BACKGROUND/SCOPE:

The purpose of this Policy is to address the issue of the identification, recognition and measurement of Aurukun Shire Council's assets for accounting purposes.

This policy covers the accounting treatment of non-current assets that provide future economic benefit to Aurukun Shire Council in accordance with Australian Accounting Standards and all relevant legislation.

This policy does not apply to property, plant and equipment that are held for sale which will be recorded in accordance with AASB 5 Non-Current Assets Held for Sale and Discontinued Operations, and disposed of in accordance with Local Government Act, Local Government Regulation and other relevant Council policies and procedures.

2. LEGISLATION AND COMPLIANCE

Local Government Act 2009

Local Government Regulation 2012

Australian Accounting Standards and Interpretations

- *AASB 116 Property Plant and Equipment*
- *AASB 136 Impairment of Assets*
- *AASB 1031 Materiality*
- *AASB 13 Fair Value Measurement*
- *AASB 1051 Land Under Roads*
- *Any other relevant standards*

3. DEFINITIONS

Asset is a resource controlled by Council as a result of past events and from which future economic benefits are expected to flow to Council. The three elements of an asset are:

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

Useful life is the period for which an asset is expected to be available for use by Council

Residual Value of an asset is the estimated amount that Council would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Capital Renewal/Replacement is renewing an existing asset to extend its serviceability but not providing a higher level of service.

Capital New/Upgrade is a new asset or renewing and asset thereby providing a higher level of service

Maintenance is 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.

Replacement Cost is the current cost to replace an item of property, plant and equipment on a like for like basis.

Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

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

Value in Use is the present value of the future cash flows expected to be derived from an asset over its useful life.

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

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

Accumulated depreciation is the total of all annual depreciation that has been applied to the asset since the asset has been used by Council.

Impairment is the decline the future economic benefits or service potential of an asset over and above the use reflected through depreciation.

4. POLICY CONTENT

Councils have an obligation to ensure that assets are managed efficiently, and that decisions regarding the acquisition of new assets and the sale and maintenance of non-current assets are undertaken in an open and transparent fashion. Sound asset management is the key to the financial sustainability of every Council.

The Asset Accounting Policy is a collection of asset policies, procedures and treatments used by Council. They address the following issues:

- Recognition
- Classes
- Depreciation
- Impairment
- Revaluations
- Management
- Register
- Reporting
- Responsibility

4.1.1 CAPITAL RECOGNITION

The following criteria must be satisfied for an item to be recognised as an asset in the Council's asset register:

- It is probable that future economic benefits will flow to Council
- Transaction or event must have occurred
- The cost or fair value of the item can be measured reliably

- Council has control over the asset
- Expenditure must be greater than the materiality threshold amount applicable to individually identified assets
- The item is expected to be used for more than one financial year

Capital expenditure will result in the recognition of assets within Council's Asset Register. These assets will be physical in nature such as town streets and rural roads, buildings, vehicles, CCTV cameras.

Measurement
An item that meets the recognition criteria as an asset shall initially be measured at cost. Where an asset is acquired at no or nominal cost, it will be recognised at its fair value as at the date of acquisition.

Initial Recognition
Assets, other than those that are acquired at no cost or for nominal consideration, are to be initially recognised at their cost of acquisition, which includes:

- purchase price less deductions (rebates, discounts, etc),
- costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. This would include:

    Costs of employee benefits arising directly from the construction or acquisition of the asset, e.g. wages, project management costs, and oncosts such as superannuation and workers compensation, plant costs

    Site preparation and/or restoration and assembly costs professional fees

    Initial delivery and handling costs; costs of testing whether asset is functioning properly; design costs

Purchase costs excluded from the cost of an asset include:

- marketing and advertising costs incurred when opening a new facility
- costs incurred after the date an asset is deemed in use
- financing costs – interest on borrowings to fund asset purchase
- preliminary studies
- general administration and other indirect overhead costs
- training costs

Expenditure after Initial Purchase
Where costs are incurred subsequent to the initial purchase of the asset, they can only be capitalised when it improves the condition of the asset beyond its originally assessed standard or performance or capacity. This can occur through:

- extending the annual service potential provided by the asset, or
- extending the useful life of the asset

Enhancement of an Existing Asset
To be considered an enhancement the expenditure must result in:

- an extension to the asset's useful life beyond what was originally estimated; or
- increase the asset's capacity, function, or efficiency; and
- not attributable to a planned maintenance schedule

Significant Replacement or Refurbishment of an asset

If an asset is not recognised in the Asset Register as a separately identifiable asset, then the expenditure will not be treated as a capital expenditure and must be expensed.

Where different materials are used to that of the existing asset, the replacement may result in the recognition of two or more assets, e.g. replacing half of an asbestos cement pipe with PVC.

For plant and equipment, minor items of spare parts are charged to the item of plant and expensed to the Statement of Comprehensive Income. Major spare parts and stand-by equipment are recognised as plant and equipment when:

- the expenditure exceeds the asset recognition threshold, and
- the benefits from the item will be for more than one financial year.

Internally Constructed Asset

The cost of assets constructed by Council shall include the cost of all materials used in construction, direct labour employed, cost of design and technical activities, plant hire, and a proportion of variable and fixed overheads

Contributed Assets

An item or Property, Plant and Equipment may be gifted or contributed to Council at nil cost or nominal value. The cost of the item is its fair value as at the date of acquisition as assessed by a suitably qualified person. Equivalent revenue must be recognised to take account of the inflow of future economic benefit.

Assets Not Previously Recognised

Where material assets are identified from prior accounting periods that have not been recognised in the Financial Statements, they will be treated as a correction of an error under AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

Repairs and Maintenance

Expenditure on a non-current asset that does not meet capitalisation criteria is considered maintenance expenditure and must be expenses as incurred. In general, maintenance expenditure will allow the asset to realise its expected service levels and estimated useful life. Typically, these expenses included scheduled regular servicing, painting, purchase of minor spare parts.

4.1.2 ASSET RECOGNITION THRESHOLD

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

Asset	Materiality Threshold
Land	$1
Land Improvements	$10,000
Plant and Equipment	$5,000
Office Equipment	$5,000
Buildings	$10,000
Roads, Drainage and other Infrastructure	$10,000

Aggregate Assets

Individual assets not meeting threshold limits may be capitalised as a group asset, whereby the total value of the group of items exceeds threshold levels (eg 100 hall chairs, computers and tablets, library books and multimedia.

4.2 CLASSES

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

Category	**Class**	**Assets Included**
Land	Land	Land
Buildings and Other Infrastructure	Buildings and Other Infrastructure	Amenities, Community Centre, Depots, Library, Office Buildings, Residences, Sports and Recreation, Commercial, improvements to any of these, Community buildings, Boat Ramps
Infrastructure	Road, Drainage & Bridge Network	Formation, Pavement, Surface, Seal, Drainage Channels, Bridges, Culverts, Levees, Carparks,
	Aerodrome	Runway, Apron
	Sewerage	Pump stations, Sewerage Treatment Plant, Sewer Manholes, Sewer Connections, Sewer Mains, Landfill, Overflow
	Water	Bores, Water Treatment Plant, Metered Residential Services, Unmetered Residential Services, Metered Commercial Services, Water Mains, Pump Stations, Manholes
Plant & Equipment	Plant & Equipment	Motor Vehicles, Heavy Machinery, Heavy Equipment, Ride-on Mowers, Generators, Kitchen Equipment, Cemetery Equipment, Fuel Bowsers, Trailers, Garden Equipment;
Aerodrome	Aerodrome	Runway, Apron
Office Equipment	Office Equipment	Multifunction photocopiers, IT Servers, Office Surveillance Systems
Capital Works In Progress	Capital Works in Progress	Accumulated costs of assets constructed by Council in whole or in part.

4.3 DEPRECIATION

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

Currently, straight line depreciation is the only acceptable method of depreciation to be used for Aurukun Shire Council.
Useful lives and residual values for each class of asset are to be reviewed as part of the annual revaluation process and are included in the Asset Register which is updated following adoption of the annual financial statements each year.

4.4 IMPAIRMENT

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

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

4.5 REVALUATIONS

AASB 116 Property Plant and Equipment 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.

Frequency of Revaluation

AASB 116 Property Plant and Equipment suggests that comprehensive revaluations every three to five years may be sufficient for non-current assets that experience only insignificant changes in fair value.

Council will provide for periodic comprehensive revaluations with interim revaluations based on specific indices. A comprehensive revaluation will include the review and application of current condition assessment, unit rates, useful lives and residual values to determine the total current replacement cost and accumulated depreciation to the date of revaluation .

Council intends to conduct comprehensive revaluations on the following basis:

- Infrastructure, Land and Buildings to be revalued by external valuers at intervals of no more than 5 years; and

- Plant, equipment, furniture and fittings are not to be subject to revaluation as they have relatively short useful lives. Council will hold these assets at historical cost.

Interim Revaluations Interim revaluations of major classes of assets will be conducted by an external valuer on an annual basis using an appropriate indexation method to minimise the impact of periodical revaluations.

Useful lives and residual values of all assets within a class of assets will be reviewed in conjunction with revaluations and interim valuations to ensure that depreciation calculations reflect actual rates of consumption and likely value of the asset at the conclusion of its useful life.

4.6 ASSET MANAGEMENT

The goal of asset management is to provide a required level of service in the most cost effective manner for present and future communities.

Council has a responsibility to plan and maintain assets to ensure long term sustainability. To achieve the desired results, Council will:

- be aware of what the community can afford, without committing to debt which Council cannot afford;
- use 10-year financial planning as required by legislation
- consider whole-of-life costing when funding new assets;
- consider the long-term implications of funding new assets against renewing;

Council has three critical documents to guide its long term asset management:

- The Asset Management Plan which identifies the Council's infrastructure needs and priorities for the next ten years;
- The annual Capital Works Program, presented at Council's Budget Adoption meeting, outlines the proposed individual projects, timing and costing. The Program is used as a guide to annual capital works planning but is subject to amendment depending on current financial climate, revised community needs and grant implications.
- The Long-Term Financial Plan, reviewed annually, provides a financial analysis of Council's long-term sustainability, including the funding of the Asset Management Plan and Capital Works Program.

All of the above is used to prepare the annual Budget, and are monitored, reviewed and updated on an annual basis.

Capital Works Program

All proposed capital works will be subjected to scrutiny using a Capital Budget Proposal Form to be submitted to Management during the annual budget process. The forms will require specific information including:

- Project description, scope of works, and proposed outcomes
- References to Council's Corporate Plan, Operating Plan, Long-term Financial Plan and Asset Management Plan
- Timeframe and milestone details
- Percentage breakdown of new or replacement component
- Grant and funding sources
- Impacts on service standards, future operating costs, asset management requirements
- Potential risks and risk management strategy

Generally, capital projects will only be considered if previously included in the Asset Management Plan and the Capital Works Program. Approval will only be given only after careful consideration of the impact of such projects on the Long Term Financial Plan.

Directors, Managers and Supervisors will ensure that projects are monitored and reported on to ensure they are completed on schedule and within authorised budgets. Any changes in project parameters (eg scope, budget, timing, and funding sources) should be properly authorised by Council, taking into consideration the effect that the change will have on Council's budget and reputation.

4.7 ASSET REGISTER

Council's Asset Register is the Asset Module of SynergySoft.

The asset register will maintain details of Property, Plant and Equipment, their values (Fair, Replacement, and Historical), Accumulated Depreciation and Written Down Values (WDV).

Depreciation will be calculated and applied through SynergySoft on a monthly basis and reconciled with the General Ledger at 30 June every year. Asset additions and disposals will be recorded and reconciled at least quarterly.

The Asset Register will be used to ensure that Council has adequate security arrangements and insurance cover to ensure fixed assets are protected from destruction, deterioration, theft, fraudulent or illegal use.

The asset register is to record as a minimum:

- Opening and closing balances
- Cost of acquisition of asset
- Depreciation charges
- Revaluation increments and decrements
- Disposals/write offs
- Assets not previously recognised
- Contributed assets
- Internal transfers
- Impairment losses
- All relevant dates of the above

Minor Assets

A register will also be kept for minor items which may be more likely to be subject to loss including cameras, television, floating plant and loose tools, and communication equipment. The register is to include description, details of location, responsible officer, serial numbers, acquisition and disposal or transfer details.

The acquisition of minor assets is treated as an expense.

Asset disposal

An asset is to be derecognised in the asset register when it is sold, traded, scrapped, lost, stolen, destroyed, decommissioned, or abandoned.

When an asset is sold, its selling price may vary from the carrying amount in Council's Balance Sheet. The variation will be recorded in Council's Statement of Comprehensive Income as gain or loss on disposal in accordance with *AASB 116 Properly Plant and Equipment.* If an asset is scrapped before it is fully depreciated, the carrying amount will represent a loss on disposal and will be expensed.

In compliance with *Sec 227 Local Government Regulation 2012,* Council will dispose its non-current assets only by:

- tender for the disposal ; or
- sale by auction.

4.8 REPORTING

4.8.1 BUDGET

Council's Capital Budget is prepared as a separate document from the Operating Budget, but forms part of the overall annual budgeting process. The Capital Budget outlines the expected projects and purchases which will be incorporated into the Asset Register upon completion, and provides details of grants and other capital revenue offsets to provide an estimated gross and net capital investment for the year.

The Capital Budget should be drawn from the Long Term Financial Plan and the Asset Management Plan, which is then reviewed to take into account any changed priorities, financial and resourcing capacities or other circumstances.

4.8.2 ANNUAL FINANCIAL STATEMENTS

Local Government Regulation 2012, Sec 176 requires a local government to prepare each of the following financial statements –

- A general purpose financial statement
- A current-year financial sustainability statement
- A long-term financial sustainability statement

The following Statements and Notes directly relate to capital assets for the financial year:

Statement of Comprehensive Income	Capital grants and contributions, net gains/losses on disposal of assets and physical resources received free of charge
Statement of Financial Position	Infrastructure, Property, Plant and Equipment net current value, Work in Progress and Asset Revaluation Reserve
Statement of Changes in Equity	Asset Revaluation Reserve movements
Statement of Cash Flow	Purchases (including through grant funding) on new and existing assets
Notes to the Accounts	Various information on asset accounting policies, valuations and methodology, reconciliations, depreciation, additions,

The Annual Financial Statements are audited, adopted, published and circulated as part of Council's Annual Report published in November each year.

4.8.3 MANAGEMENT REPORTS TO COUNCIL

A report on the progress of Capital Works and plant and equipment purchases will be provided to Council at their monthly meeting.

4.8.4 FINANCIAL INDICATORS

Financial indicators have been developed to assist Councils to evaluate their financial performance from information provided in the annual financial statements. *Section 169(5) Local Government Regulation 2012* and *Financial Management (Sustainability) Guideline 2013* list the relevant measures of financial sustainability.

Measures of Financial	How the measure is calculated	Target
Operating Surplus Ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items	Between 0% and 10%
Asset Sustainability Ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expenses	Greater than 90%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital	Not greater than

Councils are required to evaluate their performances against the financial indicators through long term financial planning, annual budgeting and annual reporting.

4.9 RESPONSIBILITY

The Financial Accountant has the overall responsibility for ensuring that the acquisition and capitalisation of all assets is conducted in accordance with legislation, Accounting Standards and Council policies. The Finance Manager and Directors are responsible for implementing the Asset Accounting Policy and ensuring that asset acquisitions and disposals are conducted in accordance with Council policy.

The Finance department staff are responsible for maintaining the asset register, incorporating data within the asset management system, recording of asset transactions including acquisitions, disposals, depreciation, and preparing financial reports as required.

5. REFERENCES AND RELATED DOCUMENTS

Corporate Plan
Operational Plan
Asset and Services Management Policy
Ten Year Asset Management Plan
Annual Capital Works Program
Ten Year Financial Plan
Annual Budget

Where a topic is not covered under this policy, the relevant Accounting Standard and legislation should be referred to.