Asset Accounting Policy

District Council of
Mount Remarkable

1. Introduction

The Council recognises that assets exist to provide services and this recognition underpins the Council's asset management policies and practices.

Council will only acquire assets after due consideration of the service needs of the community and the operating needs of the Council. Service levels will be determined in consultation with the community and in line with the Council's 'duty of care' to the community.

2. Purpose

This Policy aims to:

- Ensure that Council's accounting records, accounts and financial statements are prepared and maintained in accordance with all relevant legislation including the Australian Accounting Standards and the Local Government Act and Regulations.
- Identify the level of resources to assist in decisions about resource allocation for asset acquisition, maintenance and replacement.
- Provide a source of information on Council assets for audit and management reporting purposes.
- Provide information concerning the condition of assets.
- Provide a basis for the Council's accountability to the community for its investment in assets.

3. Definitions

Asset refers to a resource controlled by the Council as a result of past events from which future economic benefits are expected to flow in.

As such, structures fixed to land controlled by the Council are also considered an asset of Council. This also includes, for example, improvements to land provided by a Lessee, where Council is the Lessor, unless there is any clearly expressed agreement to the contrary in place. The Lessor has a responsibility to record these assets and the depreciation of the asset in their financial statements.

Asset Class refers to the categories of assets used by the Council for asset management and accounting purposes, such as land, land improvements, buildings, structures, infrastructure, plant and equipment, and furniture and fittings.

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

Cost Model - After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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

Fair Value refers to the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. For infrastructure assets that don't have a market value, replacement cost represents fair value.

The Fair Value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The *Fair Value* of items of plant and equipment is usually their market value determined by appraisal.
If there is no market-based evidence of Fair Value because of the specialised nature of the item of property, plant and equipment, and the item is rarely sold, except as part of a continuing business, an entity may need to estimate Fair Value using an income or a current replacement cost approach.

Where the future economic benefits embodied in the asset would not be replaced if the entity was deprived of the asset, then the asset should be measured at the net present value of future cash flows from its highest and best use, if this information is able to be derived.

Where there is no regular cash flow generated from the asset, the net present value of future cash flows for that asset is estimated at disposal value.

Materiality - Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to (a) influence the economic decisions of users taken on the basis of the financial report or (b) affect the discharge of accountability by the management or elected representatives of the Council.

Recoverable Amount is the higher of an asset's fair value less costs to sell and its value in use.

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

Residual Value 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.

Revaluation Model - After initial recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

4. Policy Principles

All assets are initially recognised at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including design and surveying fees and all other costs incurred. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.

Capital works still in progress at balance date are recognised as other non-current assets and transferred to infrastructure, property, plant & equipment when completed ready for use.

All non-current assets purchased or constructed are capitalised as the expenditure is incurred and depreciated as soon as the asset is held "ready for use".

The Council is of the opinion – consistent with that detailed in the South Australia Model Financial Statements – that it is not possible to ***reliably measure*** the fair value of land under roads previously acquired. Further, the Council is of the opinion that land newly acquired for road purposes that adjoins land under an existing road then forms an integral part of the combined road reserve, such that the fair value of the combined area must be assessed as a unit, and hence cannot be ***reliably measured.*** This also applies to roads in a subdivision transferred to Council without cost, in that such land forms an integral part of the road network, and the contribution of value of the added land to the road network, and of the road network to the added land, cannot be **reliably measured**.

Assets with an economic life in excess of one year are only capitalised where the cost of acquisition exceeds materiality thresholds established by Council for each type of asset. In determining (and in annually reviewing) such thresholds, regard is had to the nature of the asset and its estimated service life. Examples of capitalisation thresholds applied during the year are as follows. No capitalisation threshold is applied to the acquisition of land or interests in land.

Table 1

Asset Category	Asset Recognition Threshold	Useful life for Depreciations
Land	N/A	N/A
Buildings	$10,000	7 to 100 years
Roads, Bridges & Footpaths	$5,000	20-80 years
Plant and Equipment	$5,000	4-20 years
CWMS	$5,000	10-70 years
Office Equipment Furniture & Fixtures	$5,000	3 to 100 years
Other Assets	$5,000	7 to 100 years

Certain asset classes are revalued on a regular basis such that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset. Further detail of existing valuations, methods and valuers are to be provided in notes to the accounts.

The Current Replacement Cost method will be used as a default method unless Council determines otherwise, such as determining not to replace certain assets at the end of their economic useful life, which will require a disposal valuation method.

All non-current assets other than receivables and investments are revalued in accordance with the Local Government (Financial Management) Regulations 2011. However, if at any time management considers that the carrying amount of an asset materially differs from its fair value then the asset will be revalued regardless of when the last valuation took place. Non-Current physical assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to current replacement cost.

Revaluation increments arising upon revaluing the above mentioned non-current asset classes to their current replacement cost are credited directly to the asset revaluation reserve.

Borrowing costs in relation to qualifying assets (net of offsetting investment revenue) will be capitalised in accordance with the allowed alternative treatment in AASB 123 “Borrowing Costs”. The amounts of borrowing costs recognised as an expense or as part of the carrying amount of qualifying assets are to be disclosed in Note’s to the accounts, likewise a similar disclosure is required for amounts (if any) of interest revenue offset against borrowing costs.

An asset of property, plant or equipment is to be de-recognised or valuation-basis modified:

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

Assets can be disposed by Council in a few ways:

- By sale or trade-in;
- By donation; or
- De-recognition due to such circumstances as being scrapped, stolen, considered obsolete, or through an initial recording error, etc.

Any gain or loss from the disposal of an asset must be recognised in the Statement of Comprehensive Income.

An asset can be re-valued at ‘disposal value’ if it is determined that the asset would not be replaced, and that there are no regular cash flows to Council being generated by the asset, and that there is no market-based evidence of fair-value for that asset. Any adjustment due to this change must be recognised through an adjustment to Council’s Asset Revaluation Reserve.

5. Measurement, Revaluations & Depreciation

After recognition as an asset, Council can choose either Cost Model or Revaluation Model for processing the measurement. Under the Local Government Act 1999, Council is required to use the Revaluation Model to record the value of all the material non-current assets.

Major non-current asset classes are determined by the Council and are required to be revalued on a regular basis to ensure such that the carrying values are not materially different from the fair values.

Local Government Act 1999 states, “A council, council subsidiary or regional subsidiary must undertake a revaluation of all material non-current assets in accordance with the requirement of Australian Accounting Standard AASB116.” According to AASB 116, “The frequency of revaluation depends upon the changes in fair values of the items of property, plant and equipment being valued. …… If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which the asset belongs shall be revalued."

Table 2

Asset Category	Measurement Model	Regularity of Revaluation
Land	Revaluation	5 years
Buildings	Revaluation	5 years
Roads, Bridges & Footpaths	Revaluation	5 years
Plant and Equipment	Cost	N/A
CWMS	Revaluation	5 years
Office Equipment Furniture & Fixtures	Cost	N/A
Other Assets	Revaluation	5 years

Fair value is the methodology for assets that Council utilises the Revaluation Model for measurement purposes.

For assets for which there is no market-based evidence existing to determine fair value, a replacement cost approach is used to estimate fair value. Where the future economic benefits embodied in the asset would not be replaced if the entity was deprived of the asset, then the asset should be measured at the net present value of future cash flows from its highest and best use, if this information is able to be derived. Where there is no regular cash flow generated from the asset, the net present value of future cash flows for that asset is the disposal value. (Australian Infrastructure Financial Management Guidelines (AIFMG Section 12.12.3) – now renamed Australian Infrastructure Financial Management Manual (AIDMM)). Where assets are not rationally or fairly replaced, and Council has decided that no expected future economic benefit continuing to flow to Council, the disposal value will be reduced to nil.

A separate asset sub-class for these assets exists under the land improvement. Assets which are not replaced and have no regular expected future economic benefits from their use are derecognised from the main asset classes and recategorised in these special sub-asset classes. There is no revaluation or depreciation processes assigned to these assets, however a regular review process should be undertaken to ensure it is appropriate to remain in this mil value category.

All other assets should be revalued at least in a five-year period. For assets that experience significant change in fair value, more regular revaluation is required.

As a result of revaluation, the increment or decrement in the asset's carrying amount should be recognised in other comprehensive income and accumulated in the Asset Revaluation Reserve account.

Revaluations generally are conducted by the qualified revaluation entity however where appropriate they may be undertaken by Council's staff. Where a revaluation is undertaken by Council staff it may require review by an appropriate independent external party.

To minimise the one-off impact of revaluations on the depreciation expense and therefore on Council's operating surplus / deficit position, it is recommended that Council attempt to achieve a progressive revaluing of asset classes so that increases in depreciation expense are recognised in small increments each year rather than as large increases every 3 to 5 years. This can be achieved by undertaking a comprehensive asset revaluation within an established 5 year cycle, and a desktop revaluation whenever required.

Depreciation of Non-Current Assets
Other than land, all infrastructure, property, plant and equipment assets recognised are systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets.

Depreciation is generally recognised on a straight-line basis although other recognised depreciation methods may be used where considered appropriate.
Indicative depreciation periods for each class of asset are shown as the Table 1 above. Depreciation periods for infrastructure assets have been estimated based on the best information available to Council.
The remaining useful lives of all assets are reviewed each ear and revised as necessary.

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 (which is the higher of the present value of future cash outflows or value in use). For assets assessed under Revaluation Model, the loss should be treated as revaluation decrease, and recognised in other comprehensive income and Asset Revaluation Reserve account. (AASB136 – Impairment of Assets).

(a) does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 116 and AASB 138; and

(b) applies to such assets accounted for under the cost model in AASB 116 and AASB 138.

6. Evaluation - Asset Ratio

The key ratio related to the Asset Management is the Asset Renewal Funding Ratio. This is an effective tool to evaluate the Council's current asset management financial performance and also provide an indicator on how the future Assets Management Plan financial projections could impact on Council's sustainability and financial position. The ratio is required to be included as part of the Council's Financial Reports.

7. Review of Policy

Reviewed within 12 months following the conclusion of a periodic election, inline with legislative changes or by resolution of Council.

Additionally the effectiveness of this policy shall be reviewed every two (2) years. The Chief Executive officer or representative will report to Council on the outcome of the evaluation and make any recommendations for amendment, alteration or a substitution of a new policy.

8. Further Information

This Policy is available for inspection at the Council Office and any person may obtain a copy of this Policy upon payment of the fee fixed by Council is accordance with Council's Fees and Charges adopted each financial year. It is also available for perusal on Council's website, www.mtr.sa.gov.au

Any grievance in relation to this policy or its application should be forwarded in writing to the Chief Executive Officer of the Council.

Approved:

Chief Executive Officer

22/3/2023

9. Document administration and control

Policy title:	Asset Accounting Policy
Policy number:	04.62
Policy type:	Council / Statutory
Committee Review:	Audit & Risk Committee 3 March 2023 [027-2023]
Responsible officer:	Director Community & Corporate
First issued / adopted:	19 September 2017 [244-2017]
Review period:	Reviewed within 12 months following the conclusion of a periodic election, inline with legislative changes or by resolution of Council. Additionally the effectiveness of this policy shall be reviewed every two (2) years.
Last reviewed:	17 September 2019 [215-2019], 21 March 2023 [046-2023]
Next review date:	By November 2027
Current Version:	Version 2
Date revoked:	n/a
Applicable legislation:	Local Government Act 1999 AASB 116, 123, 136, 138, 1045 & 1051 Local Government (Finance Management) Regulations 2011
Related documents:	Risk Management Policy Disposal of Land & Other Assets
Public consultation required / undertaken:	No
File reference:	W:\4. Policy Manuals\Current Policy Manual
Strategic Plan Reference	01.07.03