

THE BAROSSA COUNCIL

NON- CURRENT ASSET ACCOUNTING POLICY



Corporate Plan Link:	6.2 Ensure that Council's policy and process frameworks are based on principles of sound governance and meet legislative requirements.			
Policy Owner:	Chief Executive Officer	Previous Approval Date(s):	15/11/11 27/6/13 26/6/14	16/6/15 21/6/16 27/6/18
Document Control Officer:	Manager Financial Services	Current Approval Date:	27/6/2019	
HPE Content Manager Ref:	16/28958*	Next Review Date:	27/6/2023	

1. Purpose

This policy details Non-Current Asset expenditure that is to be capitalised in Council's asset register.

2. Scope

This policy includes the accounting treatment of all Council's Non-Current Assets.

3. Policy Statement

3.1 Classification

Council's Non-Current Assets are classified in accordance with the Asset Classification document.

3.2 Capitalisation

Expenditure, or other transactions, which result in the creation of future economic benefits which are controlled by Council are to be capitalised when:

3.2.1 It is probable that the future economic benefits embodied in an asset will eventuate, and

3.2.2 The asset possesses a cost that can be measured reliably (as value) and its value at the time Council gains control over the asset is in excess of:

Buildings *	
- Buildings (including Toilets)	\$20,000
- Sheds, Pergolas, Cabins, Carports and Other Structures	\$10,000
- Buildings at Componentisation	\$50,000

Sealed Roads *	
- Reconstruction and Renewal Work	\$20,000

Sheeted Roads	
- Resheeting, Major Patch Repair and Road Shoulders	\$15,000

Community Wastewater Management Systems (CWMS)	\$ 5,000
Footpaths, Kerbs and Carpark Surfaces	\$10,000
Stormwater and Drainage	\$ 5,000
Bridges, Floodways and Major Culverts	\$15,000
Parks and Reserves Development	\$ 5,000
Plant and Equipment	\$ 5,000
Furniture and Fittings	\$ 5,000
Core Software Programs	\$15,000
All Other Assets	\$ 5,000

* These assets are capitalised when replacing/renewing assets that are >10% of the Current Replacement Cost.

A comprehensive list of asset groups contained within each asset category is included in the Asset Classification document.

- 3.2.3 Where the value of individual assets fall below the asset threshold for capitalisation, but the assets form part of a network or asset group such as for park furniture on a reserve, consideration will be given to capitalising the individual asset based on whether the aggregate value of those assets exceeds the capitalisation threshold.
- 3.2.4 Assets should have an economic useful life of greater than one year to enable capitalisation of the expenditure and should also meet a Materiality or threshold test.
- 3.2.5 All capitalised expenditure is to be recorded in Council's asset register and shall be properly identified, recorded and classified. For each asset, a determination shall be made of its total life, remaining useful life, cost for accounting purposes and method of Depreciation.
- 3.2.6 Asset details shall be kept in Council's financial asset register for all capitalised assets. Accuracy of details supporting capitalised assets shall be the responsibility of the asset officer assigned to that asset. The relevant asset officer will be responsible for communicating to the Co-ordinator Asset Management any changes to the asset register in a timely manner.
- 3.2.7 Assets specifically excluded from capitalisation include directional and informational signage, trees and Land Under Roads.
- 3.2.8 Community buildings, structures and associated assets (on Council owned land or Crown Land that is under the control of Council) that are managed under executed land only lease agreements will not be valued in Councils asset register and therefore will not be depreciated. Council will only recognise these assets in the event of expiration/termination of the lease and the abandonment of the building and associated assets, unless the lease agreement specifies otherwise. In the event of a loss, it is recognised that Council may not necessarily replace the building and associated assets. Council may still conduct insurance valuations as per terms of lease agreements currently in place.
- 3.2.9 All assets recorded in the fixed asset register will be correctly entered and maintained according to the information management principles applicable such as their specific Asset Class, Asset Category and Asset Group.

3.3 Renewal Versus Upgrade

- 3.3.1 Renewal is the replacement or refurbishment of an existing asset (or component) with a new asset (or component) capable of delivering the same level of service as the existing asset including any additional legislation or regulatory requirements.
- 3.3.2 A substantial amount of upgraded asset work completed each year is partly renewing components of existing assets. For normal work cycles, components of these assets would need to be replaced when the Depreciation or consumption of them had reduced their remaining life to zero, but as they are being upgraded to a better service level, they are effectively replacing asset components that would normally need to be replaced as/when due.

3.4 Acquisition

- 3.4.1 Council's Assets may be acquired by purchase, construction, donation or received free of charge (as in the case of infrastructure assets received from developers in new land divisions).
- 3.4.2 In all cases of acquisition by purchase or construction, the requirements of Council's relevant policies including the Prudential Management Policy and the Procurement Policy must be followed.
- 3.4.3 Assets acquired by Council shall be recorded in line with applicable AASBs using the cost method of accounting which is the Fair Value given as consideration plus costs incidental to acquisition including architect's fees, engineering fees and all other costs incurred in preparing the asset ready for use.
- 3.4.4 An Asset Acquisition Form or relevant documentation is required to be completed in all instances where an asset is created and it meets the definition of an asset (excluding developer donated assets received free of charge).

3.5 Internally Constructed Assets

The cost of assets constructed by the Council will include the cost of all materials used in construction, direct labour employed and, where relevant, an appropriate internal allocation amount to represent indirect labour overheads and the use of Council's internal plant and machinery used on the project. Labour overheads will be based on outdoor labour hours worked and plant and machinery allocation will be based on usage.

3.6 Revaluation

- 3.6.1 After 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. All infrastructure assets, land and buildings shall be revalued on a regular basis such that the carrying value does not differ materially from that which would be determined using Fair Value at the end of the reporting period. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
- 3.6.2 Council considers it appropriate to establish revaluation thresholds that will result in Assets of a value greater than a certain level being revalued. In setting the thresholds Council will give consideration to the number and value of existing assets and their class and type within the total portfolio. The threshold will be set at a level where even if those assets below the threshold were not revalued, the overall impact on the total portfolio would be immaterial.

- 3.6.3 Typically, Fair Value is taken as being the Current Replacement Cost owing to the specialised nature of the assets and inability to purchase or sell them on the open market. The market approach is used where there is an active and liquid market. The income approach is usually used only with for-profit entities where the asset generates income/profits then the assets must be measured on either the cost or fair value basis. Market evidence should be used for determining valuations wherever such evidence exists. Where market evidence does not exist Fair Value may need to be estimated by an income or Current Replacement Cost approach. Current Replacement Cost will be the basis of valuation of structures on Community Land. Structures erected or constructed on non-Community Land that have a market value will however need to be valued using a market based approach.
- 3.6.4 The asset officer responsible for the maintenance and accuracy of the data relevant to the asset information in the asset register shall with the Co-ordinator Asset Management will be responsible for ensuring revaluations occur regularly in accordance with AASB13.

3.7 Leases

- 3.7.1 In accordance with AASB16 Leases effective from 1 July 2019, all leases (subject to the exceptions described below), will be capitalised by recognising a Right of Use asset together with a liability for the present value of the lease obligation.
- 3.7.2 Depreciation will be calculated on the Right of Use asset and interest will be calculated on the lease liability.
- 3.7.3 The value of the Right of Use asset and the lease liability will include non-cancellable lease payments and payments for option periods which Council is reasonably certain to exercise.
- 3.7.4 The following leases will be excluded from capitalisation:
- Short Term Leases – leases for a period of 12 months or less
 - Low Value Items – items which when new have value below \$10,000 e.g. laptops, tablets, computers, small items of furniture and equipment. This low value item is applied to an item, not to a group of items, and applies to the 'as new' value, not a second hand value.

3.8 Assets Registers

Registers of all assets shall be maintained and shall record individual assets in sufficient detail as to permit their identification and control. The assets registers shall be updated at least annually. The assets registers shall be used for the purpose of revaluing and depreciating assets and for stocktaking. A stocktake of all plant and equipment, including computer equipment, shall be conducted regularly.

3.9 Impairment

- 3.9.1 Assets whose future economic benefits are not dependent on the ability to generate cashflows, and where the future economic benefits would be replaced if Council were deprived thereof, are not subject to impairment testing.
- 3.9.2 All other assets that are subject to Depreciation not included with section 3.9.1 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 inflows or value in use). Where an asset that has been revalued is subsequently impaired, the impairment is first offset against such amount as stands to the credit of that class of assets in Asset Revaluation Reserve, any excess being recognised as an expense.

3.10 Physical Resources Received Free of Charge

An item of Property, Plant and Equipment may be gifted or contributed to the Council. As per AASB116 the cost of the item is its Fair Value as at the date it is acquired.

3.11 Depreciation

3.11.1 Depreciation is the systematic allocation of the Depreciable Amount of an asset over its useful life. The Depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Straight line Depreciation is the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

3.11.2 Asset officers are responsible for reviewing the useful lives of assets they have responsibility for annually and advising the Co-ordinator Asset Management of any changes.

3.12 Disposal of Non-Current Asset which has a value attached to it

3.12.1 Assets will be disposed of in accordance with Council's Disposal of Land or Other Assets Policy.

3.12.2 The Carrying Amount of an item of property, infrastructure, plant and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from de-recognition of an item of property, infrastructure, plant and equipment shall be included in profit or loss when the item is de-recognised.

4. Definitions	
Asset	An asset is a resource controlled by the Council as a result of past events and from which future economic benefits or costs are expected to flow or be incurred by the Council. For the purposes of this policy assets refers to Infrastructure, Property, Plant and Equipment. This includes physical assets that meet a pre-determined threshold and that are used in the course of Council business over more than one accounting period.
Carrying Amount	Carrying Amount is the amount at which the asset, or sum of the class of assets, is recorded in the accounting records as at a particular date. In application to a Depreciable Asset, Carrying Amount means the net amount after deducting accumulated Depreciation.
Condition Assessment	Condition Assessment is the technical assessment of the operational and physical conditions of an asset, using a systematic method designed to produce consistent, relevant and useful information.
Componentisation	Componentisation relates to assets that are made up of materially significant parts, which in turn have different lifecycles, must be depreciated separately.
Current Replacement Cost (CRC)	Current Replacement Cost is the purchase or construction cost of replacing an asset with a technologically modern equivalent new asset with the same economic benefits allowing for any differences in the quantity and quality of output and in operating costs. A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset, also known as a cost approach
Depreciable Amount	Depreciable Amount is the cost of an asset, or other amount substituted for cost, less its Residual Value.
Depreciation	Depreciation is an expense representing the consumption of an asset overtime in providing services. It is recognised systematically for the purpose of allocating the Depreciable Amount of an asset over its useful life.

Depreciable Asset	Depreciable Asset is an asset having a limited useful life.
Fair Value	Fair Value is 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 (as per definition set out in AASB13).
Impairment Loss	Impairment Loss is the amount by which the Carrying Amount of an asset exceeds its recoverable amount.
Land Under Roads	Land Under Roads includes land under roadways and road reserves, including land under footpaths, nature strips and median strips.
Materiality	Materiality is defined in AASB 108 paragraph 5 as follows: "omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."
Non-current Assets	Non-Current Assets are assets that cannot be easily converted to cash or cash equivalents and are expected to generate economic benefits over multiple accounting periods. And for the purposes of this policy restricted to assets held in Councils asset register.
Residual Value (RV)	Residual Value is the estimated amount that an entity would currently obtain from disposal of an asset after deducting the estimated costs of disposal, if the asset was already at the age and in the condition expected at the end of its useful life.

5. Supporting Processes and Documents

- Register of Capital Assets - Conquest
- Lease Register (Section 4.10)
- Asset Disposal Form
- Asset Acquisition Form
- Annual Review of Useful Life and Valuations (AASB116 section 50 and 51)
- Asset Impairment Review Process (Section 4.7)
- Stocktake of Plant and Equipment Process
- Asset Classification Document

6. Related Policies and Codes

- Asset Management Policy
- Asset Management Strategy
- Disposal of Land or Other Assets Policy
- Motor Vehicle Policy
- Procurement Policy

7. Legislation and References

- International Financial Reporting Standards (IFRS)
- Accounting Standard AASB116 – Property Plant and Equipment
- Accounting Standard AASB136 – Impairment of Assets
- Accounting Standard AASB13 – Fair Value Measurement
- Accounting Standard AASB108 – Accounting Policies, Changes in Estimates and Errors
- Accounting Standard AASB1051 – Land Under Roads
- Accounting Standard AASB141 – Agriculture
- Accounting Standard AASB16 - Leases
- CPA Australia and the Australian Asset Management Collaborative Group - Guide to the valuation and Depreciation of not-for-profit and public sector physical assets under accrual based accounting standards
- Australian Infrastructure Financial Management Guidelines – Update 2015

- Framework for the Preparation and Presentation of Financial Statements – Australian Accounting Standards Board – December 2007
- International Accounting Standards (IAS) Property, Plant and Equipment (paragraph 6)
- South Australian Model Financial Statements – Local Government Association of South Australia
- Councils Asset Class Revaluation and Condition Assessment Program
- Local Government Act 1999

8.	Review
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This Policy will be reviewed by Chief Executive Officer in consultation with the relevant stakeholders, within four years or more frequently if legislation or Council's need changes.

9.	Further Information
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- 9.1 This Policy is available on Council's website at www.barossa.sa.gov.au. It can also be viewed electronically at Council's principal office at 43-51 Tanunda Road, Nuriootpa and all Council branches, during ordinary business hours. A copy of this Policy can be obtained at those venues upon payment of a fixed fee.
- 9.2 Complaints regarding this Policy or its application can be made to the Customer Service team on 8563 8444 or barossa@barossa.sa.gov.au at first instance, who will refer you to the most appropriate officer according to Council's *Complaints Handling Policy* (see clause 9.1 above for availability).

Signed:
Mayor Michael Lange

Dated:.....

10.	Policy Version History
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Version No:	Approval Date:	Description of Change:
	15/11/11	This was a newly named policy – with revisions reflecting the current accounting standards required at the time. Prior to this version – the policy was called the Asset Management – Recording, Tracking and Disposal of Non-Current Assets.
	27/6/13	Revisions included the current accounting standards as required at the time.
	26/6/14	Revisions included the current accounting standards as required at the time. This revision also incorporates the Accounting for Trees Policy and the Accounting for Land Under Roads Policy which were previously two individual policies.
	16/6/15	Revisions included the current accounting standards as required at the time.
	21/6/16	Revisions included the current accounting standards as required at the time.
	27/6/18	Revision of the useful lives for transport and bridges classes of assets (4.16 – page 15) only. Full review to be carried out June 2019.
	??/6/19	Full review of the Policy to simplify and improve its readability.