

## Non-current asset accounting

<b>Policy, procedure, protocol</b>	Policy
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<b>Linkage to Our Community Plan</b>	5 Leadership
<b>Objective</b>	5.1 We will have a strong, accountable and representative Government
<b>Strategy</b>	5.1.8 Ensure good governance, effective risk management and statutory compliance

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## 1. Purpose

This policy addresses the accounting treatment of non-current assets that provide future economic benefit to Clarence Valley Council and the community. This document will clearly define a framework, responsibilities and guidelines for Council Officers on the classification, definition and treatment of assets within Council.

The purpose of this Non-Current Asset Accounting Policy is to communicate Council's commitment to the principles of sound asset management and to provide a practical framework for the accounting of Council's assets.

The effective date of this policy is 1 July 2018.

## 2. Definitions

In this policy:

**"Asset Management"** means the combination of management, financial, economic risk, and other practices applied to physical assets with the objective of providing the required level of service in the most cost effective manner.

**"Buildings"** means a permanent structure comprising walls and a roof. Buildings are recognised as dwellings for which the Council assumes responsibility over, to maintain for the use and / or benefit of the community. Buildings are comprised of a structure (timber frame and walls, brick walls, cement coverings, glass walls and windows), a foundation (support piers, structural columns, concrete slab, roof structure (tiles, timber support structure, colorbond steel) and air conditioning units (split and ducted).

**"Capital Expenditure - Expansion"** means expenditure resulting in an extension of an infrastructure network at the same standard currently enjoyed by users. It is discretionary expenditure which increases future operating and maintenance costs, as it increases Council's asset base. It is recorded in the ledger at cost e.g. extending drainage, water or sewerage networks. Where capital projects involve a combination of renewal, expansion and/or upgrade expenditures, the total project cost needs to be allocated accordingly.

**"Capital Expenditure - New"** means expenditure used to create an asset that did not previously exist. New assets can be acquired by purchase, construction, donation or contribution. This includes new assets created by Council in response to demand from community expectations and future planning.

**"Capital Expenditure - Renewal"** means the works required to replace existing assets or facilities with assets or facilities of equivalent capacity or performance capability. Renewal costs are based on the modern engineering equivalent asset and includes the disposal of the former asset and excludes upgrade. When an asset is partially renewed, if the useful life is extended then this is renewal.

**"Capital Expenditure - Upgrade"** means expenditure on an existing asset to provide a higher level of service, increasing the life of the asset beyond the life that was originally intended. Where capital projects involve a combination of renewal, expansion and/or upgrade expenditures, the total project cost needs to be allocated accordingly.

**“Carrying Value”** means the amount at which an asset is recognised after deducting any accumulated depreciation / amortisation and accumulated impairment losses thereon.

**“Condition Assessment”** means the process of continuous, periodic inspections and assessments. Measurement and interpretation of resultant data, is undertaken to indicate the condition of a specific asset to determine the need for preventative or remedial action.

**“Contributed Asset”** means assets that are dedicated to Council by developers, individuals and Government. Examples of assets include land, roads, footpaths, cycle ways, kerb & gutter, stormwater and sewer and water network items.

**“Control of an asset”** means the capacity of the entity to benefit from the asset in the pursuit of the entity's objectives and to deny or regulate the access of others to bear the majority of the risks and benefits associated with an asset.

**“Depreciation”** means a method of allocating the cost of a tangible asset over its useful life.

**“Depreciated Replacement Cost”** means 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. The current replacement cost is the lowest cost of replacing the economic benefits of the existing asset and should be assessed on the basis of design and construction using modern technology. This is also referred to as the Modern Engineering Equivalent Replacement Asset (MEERA) approach.

**“Disposal”** means to relinquish ownership of an asset in a conclusive manner by sale, exchange, transfer, involuntary conversion, abandonment, or donation.

**“Fair Value”** means 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.

**“Fleet Vehicles”** means motor vehicles, light trucks, medium trucks and heavy trucks.

**“Furniture & Fittings”** means items of furniture and fittings used in the daily running of the Council's administrative requirements.

**“Impairment”** means where the carrying value of an asset exceeds its recoverable value. Signs of impairment may be internal or external factors that would indicate that potentially the recoverable amount of an asset is less than its carrying value.

- Internal Factors – Evidence of obsolescence of physical damage of an asset.
- External Factors – Information that may indicate significant adverse changes have taken place during the period, or will take place in the near future.

**“Leased Plant & Equipment”** means leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership.

**“Maintenance”** means routine activity required to ensure assets reach assumed useful life, excluding rehabilitation or renewal. Examples include painting, replacing gutters, decking boards, electrical repairs, replacing toilets and tap ware.

**“Non- Current Asset”** means an item where it is expected that the future economic benefits will flow from their utilisation by the entity that exhibits control over them, such benefits can be reliably measured and that expectation results from a past event.

Non-current assets include assets such as Property, Plant and Equipment, Infrastructure Assets, Furniture and Fittings and Office Equipment. They are assets that are expected to be held for more than one year.

**“Non-Current Asset Class”** means the grouping of non-current assets of a similar nature.

**“Non-Current Asset Recognition Threshold”** applies to expenditure of a capital nature, whereby expenditure exceeding the relevant threshold is recognised as a non-current asset.

**“Property, Plant and Equipment”** means tangible items that:

- a. Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- b. Are expected to be used during more than one accounting period.

**“Recoverable Amount”** - The recoverable amount of a non-current asset is the higher of its fair value less costs of disposal and its value in use.

**“Revaluation”** means the act of assessing an assets carrying value against its fair value at reporting date.

**“Useful Life”** means the period over which an asset is expected to be available to provide useful service within an entity. The useful life of an asset may be shorter than its economic life. Complex assets may be componentised. The useful life of each component will then be determined.

**“Value in use”** is the present value of the future cash flows expected to be derived from a non-current asset.

### 3. Background/legislative requirements

The policy seeks to provide a logical structure for the recognition and classification of non-current asset data including clarity on the distinction between capital expenditure and expenditure related to operations and maintenance.

Legislation and standards applicable to non-current asset accounting are as follows:

Government Legislation

- Local Government Act 1993
- Local Government (General) Regulation 2005

- Local Government Code of Accounting Practice and Financial Reporting.
- Office of Local Government – Local Government Asset Accounting Manual

**Australian Accounting Standards**

- Australian Accounting Standard AASB 116 – Property Plant and Equipment
- Australian Accounting Standard AASB 1051 – Land Under Roads
- Australian Accounting Standard AASB 13 – Fair value Measurement
- Australian Accounting Standard AASB 1031 – Materiality
- Australian Accounting Standard AASB 136 – Impairment of Assets
- Australian Accounting Standard AASB 138 – Intangibles
- Australian Accounting Standard AASB 5 – Non-Current Assets Held for Sale & Discontinued Operations
- Australian Accounting Standard AASB 117 – Leases

#### **4. Policy, protocol or procedure statement**

##### **4.1 Non-Current Asset Classes**

Non-Current Assets within Council of a similar nature or function are grouped into non-current asset classes. Non-Current Assets are reported in the published financial accounts in accordance to their non-current asset class. The following table sets out the asset classes held by Council and provides a description of the assets within that class.

<b>Non-Current Asset Class</b>	<b>Description</b>
Buildings Non Specialised	General purpose or commercial buildings where there is a secondary market e.g. Administration buildings.
Buildings Specialised	Buildings designed for a specific limited purpose e.g. emergency services buildings, specialised buildings to house specialised infrastructure plant such as pump station buildings, depot buildings, sporting facility buildings (Kiosks, Club Houses, Grandstands etc.) and some heritage properties.
Bulk Earthworks	Non depreciating asset of an infrastructure nature.
Furniture & Fittings	All items of furniture and electrical items of a furnishing nature such as refrigerators and dishwashers.
Intangible Assets	Software.
Land - Community	Land held by Council for use within the community e.g. parks, reserves, playing fields.
Land - Operating	Land owned by Council that can be used for various purposes and is able to be bought, sold or otherwise disposed of by Council.
Land Under Roads (post 1/7/08)	Land under roadways, and road reserves, including land under footpaths, nature strips and medium strips.

Non-Current Asset Class	Description
Leased Plant & Equipment	Heavy, medium and light equipment used for the provision of services to the community e.g. backhoe, motor vehicles or trucks.
Library Books	Books and reference material held within Council's libraries that are for the purpose of lending to the community.
Office Equipment	Office Equipment refers to mechanical or electronic equipment used within the office environment e.g. Computer, Photocopier.
Other Assets	This class of asset includes items such as artworks and other collections of an art nature.
Other Infrastructure	Includes Floodplain assets such as floodgates, flood pipes, drains, culverts & platforms, levees, causeways, crossings & ramps, rock walls or pedestrian bridges.
Other Open Space/Recreation Assets	Includes items such as playground equipment, BBQ's, shelters, tennis courts, skate parks, cricket wickets, other outdoor fitness facilities and associated items.
Other Structures	Item of a structural nature that is unable to be classified as a building e.g. statue, fence, bollard.
Plant & Equipment	Heavy, medium and light equipment used for the provision of services to the community e.g. backhoe, motor vehicles, trucks, flood pumps, welders, brush cutters & chainsaws.
Quarries	Area of land used for the extraction / removal of stone or gravel to be used in construction, building, road or manufacturing works.
Roads, Bridges, Footpaths	Assets of an infrastructure nature. Wharves, jetties & boat ramps, bus shelters and carparks are also included in this class.
Sewer	Sewerage network assets including pump stations, pipes, and treatment plants.
Storm Water & Drainage	Storm water and drainage infrastructure including pipes, culverts and pits.
Swimming Pools	Includes assets essential to the operation a swimming pool (e.g. swimming pool structure, chemical and filtration plants and heating systems), also includes diving boards, shade structures and other fixed assets.

Non-Current Asset Class	Description
Tips	Area of land set aside for the use of disposing/storing of residential and commercial waste.
Water	Water supply network assets including dams, tower bridges, pipes, meters, mains, pump stations and reservoirs.

#### 4.2 Non-Current Asset Recognition

For an item to be recognised as a non-current asset in Council’s financial asset registers it must meet all of the following criteria:

1. Council has control of the asset,
2. It is probable that future economic benefits or service potential associated with the item will flow to Council,
3. The cost or fair value of the asset can be measured reliably,
4. The cost or fair value exceeds Council’s non-current asset recognition threshold.

The cost of an asset will include:

1. Purchase price less deductions (rebates, discounts etc.).
2. Costs directly attributable to bringing the asset to a location where it can be used as intended. This would include:
  - Employee compensation e.g. outside wages, inside project management costs, and “on costs” such as superannuation and workers compensation,
  - Site preparation and/or restoration - Assembly costs,
  - Professional fees

Non-Current Assets may be acquired in a number of ways including purchased, constructed, contributed, gazetted, vested or donated.

Contributed Assets are deemed to be acquired by Council at the time the subdivision certificate is released. A developer submits a works as executed plan showing all new services and infrastructure that are to be dedicated to Council at the time of lodging the subdivision certificate application. The Development Engineer will determine and accept the assets. These assets are valued at current cost of construction.

Feasibility studies for the construction of infrastructure are recognised as an operating expense because the degree of certainty that economic benefits will flow to the Council beyond the current accounting period is insufficient to warrant the recognition of an asset.

#### 4.3 Non-Current Asset Valuation

All Council assets that qualify for recognition are to be initially measured at cost. However, where an asset is acquired at no cost (contributed/donated) or for nominal cost, the value is deemed to be its fair value at the date of acquisition. Fair Value is deemed to be either:

- Market Value if there is market evidence; or
- Depreciated Replacement Cost if there is no market evidence.

Where an asset was acquired in prior financial years and has yet to be recorded in Council's financial asset register, the asset is to be brought to account at the fair value as at the date of recognition.

#### **4.4 Non-Current Asset Recognition Thresholds**

Non-current asset recognition thresholds have been determined by Council's Asset Management Steering Group whilst taking into account materiality and asset lifecycle management. These thresholds are reviewed regularly to determine suitable limits. The non-current asset recognition thresholds are outlined in the Non-Current Asset Accounting Procedures.

#### **4.5 Capital Costs on Assets after initial recognition**

Capital costs on assets incurred after initial recognition are to be classified as either new, upgrade/expansion, or renewal.

#### **4.6 Capital Works in Progress**

Projects for constructed infrastructure assets that are not completed by 31 May each financial year will be treated as Capital Works in Progress (WIP). A register recording financial details of the unfinished works is held and maintained by the Assistant Financial Accountant (Assets/Reporting).

#### **4.7 Non-Current Asset Revaluations & Stocktakes**

Non-Current Asset revaluations are conducted on a regular basis, not being more than 5 years, to assess the assets carrying value against the assets fair value at reporting date. All assets subject to a revaluation process are to be revalued at Fair Value.

Revaluation write-downs are to be authorised by the Manager Finance & Supply.

Stocktakes will be conducted at the time of revaluation or at condition assessment for buildings & infrastructure either by an independent professional valuer or by an internal expert.

#### **4.8 Depreciation & Impairment**

The rate of depreciation will be based on accepted patterns of useful life by Local Government, the experience of localised conditions to assess any environmental impact on those assets, and the verification from an independent valuer.

The purpose of depreciation is to record the value (or cost) of the asset that has been consumed during the accounting period so that users can obtain an understanding of the Council's asset and their performance. Depreciation expense in the financial statements should not be used as a proxy for the amount of future funding required to replace the existing asset nor a mechanism to set users' charges or rates based on fully funding depreciation. Office of Local Government preference is for all councils to use straight-line method for depreciation of Infrastructure Property Plant and Equipment assets. If councils are using a depreciation method other than straight line then councils need to have detailed systems and controls to support that alternative model. Current practice for Council is to use straight line depreciation.

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. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

Artworks & collectibles, Community Land, Operational Land and Bulk Earthworks are all non depreciating assets.

All asset classes will be reviewed annually for impairment by Section Managers.

#### **4.9 Non-Current Asset Disposal**

Disposals of Councils assets are processed in accordance with relevant Disposal of Council Assets policies, accounting standards and internal procedures.

#### **4.10 Useful Life**

The useful life of an asset is defined as the period over which an asset or component is expected to be available for use by an entity. Over this period the useful life may be reviewed on a regular basis taking into account new information about future economic value, any adjustments resulting from this review will be made prospectively as changes in accounting estimates (i.e., adjustments to depreciation charges will be made to future periods with no allowable adjustment to prior periods).