

Policy

Non-Current Asset Accounting

Responsible Manager (Title)	Manager Finance & Supply <u>Strategic Infrastructure</u>		
Adopted by Council	Date	Minute Number	
File Reference Number	ECM	Version <u>DV4.0</u>	Review Due
Document(s) this policy Supersedes	Non-current asset accounting V3.0		
Community Plan Linkage	Leadership – Council is accountable and representative with open and transparent leadership		

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.

2 Definitions

In this policy: _____

“Asset - ” ~~A resource or amenity controlled by an entity~~ Council that provides a service to Council and or the Community, can be valued, and are expected to have a life greater than 12 months. as a result of past events and from which future economic benefits are expected to flow to the entity. ~~Infrastructure assets, property, plant and equipment are all sub-classes of property, plant and equipment which are of non-current assets with a life greater than 12 months and enable services to be provided. a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.~~

“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 ~~cost-effective~~ manner.

“Buildings” - ~~means a~~ permanent structures 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~~ **E**xpenditure 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.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~~ **E**xpenditure 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~~ **t**he 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” - ~~E~~**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~~ **t**he amount at which an asset is recognised after deducting any accumulated depreciation / amortisation and accumulated impairment losses thereon.

“Condition Assessment” - ~~means~~ **t**he process of continuous, periodic inspections and assessments. ~~Measurement and interpretation of resultant data.~~ 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. This data is also used to calculate the estimated remaining useful life and fair value of the asset.

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

“Control of an asset” - ~~means~~ **t**he capacity of ~~the entity~~ Council to benefit from the asset in the pursuit of the ~~entity's~~ Council's objectives and to deny or regulate the access of others to bear the majority of the risks and benefits associated with an asset.

“Depreciable amount” - ~~The cost of an asset, or other amount substituted for its cost,~~ Cost or Fair Value less ~~any~~ its residual value if applicable.

“Depreciation” - ~~means~~ **t**he systematic allocation of the depreciable amount of an asset over its useful life.

“Depreciated Replacement Cost”/Written Down Value/Carrying Value - means ~~the~~ 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~~ To relinquish ownership of an asset in a conclusive manner by sale, exchange, transfer, involuntary conversion, abandonment, or donation.

“Fair Value” - means ~~the~~ 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. Where a market does not exist, this value is determined by current cost to replace less its estimated depreciation.

“Fleet Vehicles” - means ~~m~~ Motor vehicles, light trucks, medium ~~truck~~trucks, and heavy trucks.

“Furniture & Fittings” - means ~~it~~ Items of furniture and fittings used in the daily running of the Council's administrative requirements.

“Impairment” - means ~~where the~~ 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 period or~~ will take place in the near future.

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

“Maintenance” - means ~~r~~ Routine activity activities 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~~ An item ~~for where it~~ which utilisation is expected to provide ~~is expected that the future~~ economic benefits will flow from their utilisation by ~~to the entity~~ Council, that exhibits control over them, such benefits that can be reliably measured, and that expectation results from a past event ~~for more than one year.~~

Non-current assets include ~~assets such as infrastructure assets, Property~~ property, ~~Plant~~ plant and ~~Equipment~~ equipment, ~~Infrastructure Assets, F~~urniture and ~~F~~ittings and ~~Office~~ office ~~Equipment~~ equipment. ~~They are assets that are expected to be held for more than one year.~~

“Non-Current Asset Class” ~~means – t~~The grouping of non-current assets of a similar nature.

“Non-Current Asset Recognition Threshold ~~– the capital expenditure threshold which must be exceeded for an asset to be”~~ – the capital expenditure threshold which must be exceeded for an asset to be ~~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 – t~~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 – The ” ~~means the~~ act of assessing an ~~assets~~asset carrying value against its fair value at the reporting date.

“Useful Life - The” ~~means the~~ period over which an asset is expected to be available to provide useful service ~~within an entity to Council and or the Community~~Community. 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” - T ~~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

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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~~ ~~Current Held Assets for Sale~~ & Discontinued Operations
- Australian Accounting Standard AASB 117 – Leases

4 Policy statement

4.1 ~~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 statements~~ in accordance ~~to~~with their non-current asset class. The following table sets out the asset classes held by Council and provides a sample description of the assets within that class.

Non-Current Asset Class	Description
Buildings Non-Specialised <u>Non-Specialised</u>	General purpose or commercial buildings where there is a secondary market e.g.e.g.; <u>Administration buildings.</u>
Buildings Specialised	Buildings designed for a specific limited purpose e.g.e.g., emergency services buildings, specialised buildings to house specialised infrastructure plant such as pump station buildings, depot buildings, sporting facility buildings (k Kiosks, C club h Houses, G grandstands etc.) and some heritage properties.
Bulk Earthworks	Non-depreciating asset of an infrastructure nature. <u>Works required to Prepare a site for construction of the facility.</u>
Furniture & Fittings	All items of furniture and electrical items of a furnishing nature such as refrigerators and dishwashers.
Intangible Assets	Assets which are not physical in nature, they have no shape or form and cannot be held or manipulated e.g., Software <u>software wherefor which there is an outright one-off purchase in addition to an on-going annual maintenance fee.-</u>

Non-Current Asset Class	Description
Land - Community	Land held by Council for use within the community e.g.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 - median strips.
Leased Plant & Equipment	Heavy, medium medium , and light equipment <u>leased by Council</u> <u>which is</u> used for the provision of services to the community e.g.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 M-mechanical or electronic equipment used within the office environment e.g.e.g. , Computer <u>computer</u> , Photocopier <u>photocopier</u> .
Other Assets	This class of asset includes items such as artworks and other collections of an art nature.
Other Infrastructure	Includes Floodplain - Floodplain assets such as <u>including</u> floodgates, flood pipes, drains, culverts & platforms. <u>L</u> evees, 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 are <u>is</u> -unable to be classified as a building e.g.e.g. , statue, fence, bollard.
Plant & Equipment	Heavy, medium medium , and light equipment used for the provision of services to the community e.g.e.g. , backhoe <u>s</u> , 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 <u>required for transport, generally located within road reserves, infrastructure nature-including roads, bridges, footpaths, wharves, jetties & boat ramps, bus shelters, traffic facilities (signs, guardrails, islands) and car parks</u> s-are also included in this class.

Non-Current Asset Class	Description
Sewer	Sewerage network assets including pump stations, pipes, and treatment plants, <u>pressure systems and reuse.</u>
Storm w -Water & Drainage	Storm—water and drainage infrastructure including pipes, culverts <u>culverts</u> , and pits.
Swimming Pools	Includes assets essential to the operation a swimming pool (e.g.e.g. swimming pool structure, chemical and filtration plants <u>plants</u> , and heating systems). <u>This</u> —also includes diving boards, shade structures and other fixed assets <u>associated with swimming pools</u> .
Tip <u>Landfills</u>	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, and
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 at superannuation and workers compensation,
 - ~~Site preparation and/or restoration.~~ Assembly costs.
 - Professional fees
 - Freight costs
 - Fees & Charges

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

Contributed Assets are deemed to be acquired by Council at the time ~~the a~~ 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, and this could be different to what the developer has indicated.-

Feasibility/~~G~~concept studies/plans 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 ~~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 vValue if there is market evidence; or
- Depreciated rReplacement cCost 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 and could also result in the recognition of a prior period error. Refer to Councils separate Found Assets position paper.-

4.4 — Non-Current Asset Recognition Thresholds

Non-current asset recognition thresholds have been determined by Council's Asset Management Steering Advisory Group whilst ~~taking into account~~considering 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.

4.4 ~~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.

4.5 ~~4.6~~ — Capital Works in Progress

Projects for constructed infrastructure assets that are not completed by 30 June 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 Finance & Infrastructure Planning & Assets Planning Team. These amounts will

~~ultimately be held in the Works System as amounts yet to be capitalised, but this will not be 100% of the full amount until such time as all the pre works system WIP projects are completed.~~

4.6 4.7 — Non-Current Asset Revaluations

Non-Current Asset revaluations are conducted on a regular basis, ~~not~~ being ~~not~~ more than 5 years ~~apart~~, to assess the assets' carrying value against the assets' fair value at ~~the~~ reporting date. All assets subject to a revaluation process are to be revalued at ~~Fair-fair Valuevalue~~. ~~A yearly fair value assessment is conducted for all asset classes and if a class increases or decreases above Ceouncil's- materiality threshold then an index adjustment will be appliedthe industry threshold, a desktop revaluation will be applied.~~ ~~WAll water and sewer assets are indexedrevalued each year, regardless of the movement, by a pre-determined rate supplied by the State Water Cycle governing body.-~~

Revaluation write-downs are to be authorised by the Manager Finance ~~& Suppand Systemsly~~.

4.7 4.8 — Depreciation & Impairment

The rate of depreciation will be based on ~~guidance provided accepted patterns of useful life~~ by the Office of Local Government, ~~IPWEA or professional staff judgements taking into account the experience of~~ localised conditions ~~associated withto assess an any~~ environmental impact on those assets. ~~These rates, these will subsequently be and the verified bycation from~~ an independent valuer ~~in accordance with the revaluation cycle.-~~

~~The purposeThe purpose of depreciationof isdepreciation -tois -recordto -therecord the value-(value (or cost or cost)~~ of the asset that has been consumed during the accounting period so that users can obtain an understanding of the Council's assets and their performance. Depreciation expenses in the financial statements should not be used as a proxy for the amount of future funding required to replace the existing assets, 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 ~~Infrastructureinfrastructure, Propertyproperty, Plant-plant and Equipmentequipment~~ assets. If councils are using a depreciation method other than straight ~~line~~line, then councils need to have detailed systems and controls to support that alternative model. Current practice for ~~Clarence Valley~~-Council is to use straight line depreciation ~~only.-~~

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 theand depreciationthe -methoddepreciation -ofmethod -anotherof -significantanother significant~~ part of that same item. Such parts may be grouped in determining the depreciation ~~chargeexpense~~.

~~Artworks &Artworks -collectiblesand, -Communitycollectibles, -LandCommunity, -OperationalLand, LandOperational -andLand -Bulkand -EarthworksBulk -areEarthworks -allare all~~ non-depreciating assets.

Section Managers will review all asset classes annually for impairment ~~and complete an Impairment Return.-~~ ~~Additional impairment assessments may also be required in response to external risk factors, such as a natural disaster, damage or vandalism.~~

4.8 ~~4.9~~ — Non-Current Asset Disposal

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

4.9 ~~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~~Council. Over this period, the useful life may be reviewed ~~on a regular basis taking into account~~considering new information about future economic value~~;~~. ~~a~~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). Changes to the condition assessment of an asset class, does not always result in a change to the useful life of an asset. i.e.; Aan asset may remain in a certain level of condition longer than originally estimated but its overall life in-use may still remainremain the same.

5 Implementation

This policy will be reviewed annually in line with any changes to Accounting Standards, legislative ~~changes~~changes, or changes to asset management principles.

6 Appeal/objections process

N/A

7 Related Documents

Non-Current Asset Accounting Procedure~~s~~
 Asset Management Policy
 Asset Management Strategy
 Internal Asset Renewal Policy
 Disposal of Council Assets (other than Land & Buildings) Policy
 Disposal of Surplus
[Found Asset Position Paper](#)
[Fair Value/ Impairments Position Paper](#)

8 Attachments

N/A