ASSET ACCOUNTING
POLICY No. CS 13

Our Vision

Nambucca Valley ~ Living at its best

Our Mission Statement

'The Nambucca Valley will value and protect its natural environment, maintain its assets and infrastructure and develop opportunities for its people.'

1.0 Policy objective

The aim of this policy is to contribute to sustainable financial management of infrastructure/property/plant and equipment/intangible assets of the Council and to provide accurate data regarding these assets in all financial documents.

This policy addresses the accounting treatment of infrastructure/property/plant and equipment/intangible assets that provide future economic benefit to Nambucca Valley Council and the community.

2.0 Related legislation

- AASB 13 – Fair Value Measurement
- AASB 101 – Presentation of Financial Statement
- AASB 108 – Accounting Policies, Change in Accounting Estimates and Errors
- AASB 116 – Property, Plant and Equipment
- AASB 16– Leases
- AASB 136 – Impairment of Assets
- AASB 138 – Intangible Assets
- AASB 1031 – Materiality
- AASB 1051 – Land Under Roads

2.1 References and Council Documents

- OLG Code of Accounting Practice and Financial Reporting
- Asset Capitalisations Procedure No: CS 02
- Nambucca Valley Council Asset Management Plans

3.0 Definitions

"Capital expenditure" is relatively expenditure above the designated thresholds, which has benefits, expected to last for more than 12 months. Capital expenditure includes renewal/replacement, expansion and upgrade.

"Carrying amount" is defined in AASB 116 as the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

“Cost” is defined in AASB 116 as the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised.

“Depreciable amount” is defined in AASB 116 as the cost of an asset, or other amount substituted for cost, less its residual value.

“Depreciation” is defined in AASB 116 as the systematic allocation of the depreciable amount of an asset over its useful life.

“Fair value” is defined in AASB 13 as 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

“**Intangible Asset” –** an identifiable non-monetary asset without physical substance i.e. software, easements

“Maintenance expenditure” is recurrent expenditure on the asset, which is periodically or regularly required as part of the anticipated schedule of works required to ensure that the asset achieves its useful life. It is expenditure, which was anticipated in determining that asset’s useful life.

“Operating expenditure” is recurrent expenditure, which is continuously required such as power, fuel, staff, plant equipment, on cost and overhead excluding maintenance and depreciation.

“Property, plant and equipment” is defined in AASB 116 as 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 period.

“Residual value of an asset” is defined in AASB 116 as 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.

“**Right of Use Asset**” per AASB 16 Leases occurs when the customer has the right to direct how and for what purpose the asset that is the subject of the lease is used throughout the period of use, or the relevant decisions about how and for what purpose the asset is used are predetermined and:

(i) the customer has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or

(ii) the customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

“Useful life of an asset” is defined in AASB 116 as:

(a) the period over which an asset is expected to be available for use by an entity; or

(b) the number of production or similar units expected to be obtained from the asset by an entity.

4.0 Policy Content

This policy applies to all of Council's recognised non-current infrastructure, property, plant and equipment (IPPE) and intangible assets.

4.1 General Requirements:

Asset Classes:

- Plant & Equipment
- Office Equipment
- Furniture & Fittings
- Land – Operational
  Community
  Crown
- Land Improvements
- Land under Roads – Post 1/7/2008
- Buildings – Specialised
- Buildings - Non Specialised
- Other Structures
- Infrastructure:
    - Roads
    - Bridges
    - Footpaths
    - Bulk Earthworks
    - Stormwater Drainage
    - Other Road Assets
    - Water supply network
    - Sewerage network
- Other Infrastructure
- Swimming Pools
- Other Open Space/ Recreational Assets
- Other Assets
- Remediation of Tip
- Works In Progress
- Right of Use Assets (ROU)

Asset Recognition

All non-current Infrastructure Property Plant and Equipment, ROU assets, and Intangible assets are initially measured at cost and must be recorded in Council's Fixed Asset Register.

For an asset to be recognised it must meet the following criteria:

- It is probable that future economic benefits associated with the item will flow to Council
- Council has control over the asset- (if staff are unsure of whether control exists the Indicators of Control – Control Assessment Checklist must be completed and presented to the Nambucca Valley Council Asset Management Group for review).
- The cost or fair value of the item can be measured reliably
- The cost or fair value exceeds the Asset Values Materiality Services Procedure No: CS 02
- The item is not held for sale and is expected to be used by the entity for more than 12 months
- The item has physical substance.

Where the asset does not have physical substance but meets other criteria it will be recorded as an intangible asset.

Before staff enter into lease contracts they are to consult with the Finance section so that it can be determined as to whether the lease will create a Right of Use Asset.

An item that meets the definition of an asset shall be measured at cost in accordance with AASB 116

The cost of an asset will include:

- 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 (as defined in AASB 119 Employee Benefits) arising directly from the construction or acquisition of the asset – including Council staff project management, and survey and design employee costs
    - Costs of site preparation and/or restoration and dismantling costs.
    - Initial delivery and handlings costs
    - Installation and assembly costs
    - Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)
    - Professional Fees

Purchase costs excluded from the cost of an asset include:

- Costs of opening a new facility
- Costs of introducing a new product or service (including costs of advertising and promotional activities)
- Costs of conducting business in a new location or with a new class of customer (including costs of staff training) and
- Administration and other general overhead costs

For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.

Asset Recognition Threshold

The asset recognition thresholds that apply to each asset class are detailed in Asset Capitalisations Procedure No: CS 02 **Capital Expenditure on Assets after initial Recognition**

Capital expenditure on existing assets can be capitalised when the amount exceeds the asset recognition threshold and where the associated works improve the condition of the asset beyond its originally assessed standard of performance or capacity.

This can occur through:

- An increase in the remaining service potential provided by the asset; and or
- Increasing the useful life of the asset.

Outlays that do not meet the above criteria must be expensed. For example, expenditure that merely restored an asset to its expected condition in service, or repaired damage or wear and tear that would have prevented the asset reaching its original estimated useful life, are expensed as maintenance.

Where major cyclical maintenance is carried out, the expense incurred is capitalised to the extent that future potential is enhanced.

In general, works that includes upgrades, enhancement and additions to an existing asset would fall into this category when they result in:
• An increase in the asset's useful function or service potential, or
• An extension of its useful life, or
• An improvement to the quality of the assets services, or
• A reduction in future operating costs, and
• The upgrade or enhancement becomes an integral part of the asset.

Line marking on a new seal for example, would be capitalised as a surface cost.

The following items can be considered as expenses:
• Expenditure on Non-Council assets should be expensed (e.g. Driveways, Essential Energy, Telstra, and National Broadband Network). These costs can be considered as operational,
• Expenditure on non-assets should be expensed e.g. landscaping, small advisory and regulatory signs,
• Maintenance expenditure should be expensed e.g. Line-marking on an existing surface, building painting etc.

Disposal

All non-current assets will be de-recognised when:

- The asset is destroyed, abandoned or decommissioned with no future economic benefits expected from its use
- The asset is scrapped, sold or traded
- The asset is lost or stolen, or
- Control of the asset is transferred to another entity

Partial disposal of an infrastructure asset is to occur whenever:
- A component or section of an infrastructure asset is destroyed, abandoned or decommissioned with no future economic benefit expected to be generated from its use; or
- Major renewal works have been undertaken resulting in a component or section of an infrastructure asset being replaced.

Any gain or loss arising on de-recognition of the asset shall be included in Council's Income Statement in the year the asset is de-recognised.

Updating the Fixed Assets Register

To ensure accurate and timely update of asset registers for all asset movements the following is required:

- The finalisation of a construction project is to be conveyed immediately to the asset management team who are then required to complete a capitalisation form (identifying various components and any disposals) and send that form through to the Senior Finance Officer for registration in the Fixed Assets Register Note that if asset components of that project are commissioned (in use) prior to the entire project being completed then a capitalisation form must be sent to the Senior Finance Officer for registration of those asset components in the Fixed Assets Register
- Identification of projects costs to be capitalised v expensed.
- Identification of costing of asset components.
- Capitalisation of assets and/or components in the asset register on completion of each project.

- Capitalisation of developer asset dedication on the registration of subdivision. Capitalisation forms need to be sent to the Senior Finance Officer. If relevant contract rates are unavailable then unit rates adopted at the last comprehensive revaluation will be applied.
- Identification of new asset v asset renewal/upgrade expenditure
- Identification and processing of assets disposed
- Depreciation of assets quarterly
- Reconciliation of the asset register to the general ledger on at least a quarterly basis.
- A reconciliation of the fixed asset register to the GIS should be performed with each Comprehensive Revaluation of classes
- A reconciliation of Crown Land held in Council's Fixed Asset Register and Land Register must be made against holdings identified in the Crown Land portal at 30 June each year.

Asset Revaluations

Plant & Equipment, Furniture & Fittings, Office Equipment, Other Assets and Library Books are stated at their Fair Value in Council's Financial Statements as approximated by depreciated historical cost.

Operational Land is valued at Market Value (highest and best use) AASB13.

Community Land and Crown Land is valued using Land Values obtained from the NSW Valuer General.

Land Under Roads is valued using the Englobo Method

All other classes are valued using the cost approach method (AASB13).

When an item of IPPE is revalued, its entire class should be revalued. The Nambucca Valley Council revalues its assets at 5 year frequencies

Knowledge of current asset values is essential for the efficient and effective management of assets. Asset valuation information can assist in making decisions regarding the allocation of resources to those assets. Applications of the Valuation & Revaluation Policy will drive consistent processes to produce comparable valuations from year to year for both:
- Financial Reporting; and
- Renewal Expenditure Forecasting.

Asset revaluations will be crossed checked against Council Asset Management Plans to ensure alignment of remaining useful lives and gross replacement costs for strategic planning purposes.

If the carrying amount of a class of assets is increased as a result of a revaluation, the net increase shall be recognised in other comprehensive income and accumulated in equity under the heading of 'Revaluation Reserve'. However, the net revaluation increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in profit or loss.

If the carrying amount of a class of assets decreased as a result of a revaluation, the net revaluation decrease shall be recognised in profit or loss. However, the net revaluation decrease shall be debited directly to equity under the heading of 'Revaluation Reserve' to the extent of any credit balance existing in any revaluation reserve in respect of the same class of asset.
Revaluation increases and revaluation decreases relating to individual assets within a class of infrastructure, property, plant and equipment shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

Council is to ensure that all revaluations are finalised well before balance date to allow for comprehensive checking by finance and engineering staff as well as audit of the revaluation prior to 30 June. Preferably 31 December or 31 March to align with quarterly depreciation processing. Staff must then reassess at 30 June whether there has been any material movement since the comprehensive revaluation and provide this written documentation as audit evidence. A Revaluation Quality Assurance checklist must be completed for each Comprehensive Revaluation and signed off by Senior Management.

Council will perform an annual assessment of fair value (between comprehensive revaluations) before end of financial year and document reasons why Council concluded that carrying value was not materially different from fair value or adjust the asset class according to an appropriate indexation measure.

The assets' residual values and remaining useful lives are reviewed, and adjusted if appropriate, at each reporting date. This will be documented via the 'YE asset declaration memo' which will list each asset and asset custodian is responsible for. When reviewing remaining useful lives changes in replacement timing resulting from successful grant applications must be considered.

In relation to responsibilities for revaluations the following applies:

CFO:

Responsible for coordination of:
- Corporate financial valuation process;
- Managing and keeping the corporate Finance System up to date;
- Valuation and assessment of impairment for all Council **non-infrastructure assets**, including light fleet, small plant, heavy plant, antiques & artworks; and
- Reporting Fair Value in the financial statements, including impairment.

Manager Assets:

Responsible for coordination of:
- Managing and keeping the GIS Asset Management System and technical asset registers up to date;
- Collection of asset inventory and condition data;
- Asset revaluations align with Council Asset Management Plans; and
- Valuation and assessment of impairment for all Council infrastructure assets, land, nonspecialised buildings and specialised buildings. The primary method used to assess impairment is through regular condition assessments.

Depreciation

The method and 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 where engaged.

Council uses the straight line method to depreciate tangible non-current assets (other than parcels of land, which are not subject to depreciation).

The Straight-line Depreciation approach is where consumption of benefits is in a uniform manner over the useful life of the asset, calculated on asset cost (less residual value if applicable).

<u>**Asset depreciation and amortisation parameters, useful lives, asset condition (used to assess remaining useful lives) are to be reviewed annually to ensure that they are representative of current conditions and expectations at the end of each financial year.**</u>

Remaining useful life of an asset should be reassessed whenever a major addition or any significant partial disposal is processed.

Residual Values of Non-current Assets

The residual value of buildings, vehicles, plant and furniture and fittings that are traded at the end of their useful life, can be calculated via AASB 13 Fair Value Measurement. The residual value of the asset is what is expected to be obtained at trade in. The residual values of buildings, plant, equipment and furniture and fitting assets are based on market evidence and advice provided by Council's independent valuations of these assets.

Residual values are not recognised for infrastructure assets.

Impairment

Where the carrying amount of an asset is found to exceed the recoverable amount the asset is to be written down to the recoverable amount and an impairment loss recorded. The impairment loss will be recognised immediately as an expense unless the asset class is carried at a revalued amount. In this circumstance, any impairment losses shall be treated as a revaluation decreases in accordance with AASB 136 Impairment of Assets to the extent it reverses any previous revaluation decrement.

Works in Progress

Work in progress balances are to be reviewed monthly to ensure completed projects are brought to account as assets within a timely manner and any operational costs are expensed accordingly.

Indexation

Council's Water and Sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Planning, Industry and Environment ~~Crown Lands and Water (CLAW).~~

Land Under Roads

As at 1 July 2008, Council elected not to recognise any values for Land Under Roads acquired before the commencement of AASB 1051. Land Under Roads acquired after 1 July 2008 is recognised in accordance with AASB 116.

The valuation methodology to be used by Council will be the "englobo" method.

Crown Reserves

Crown Reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets.

Rural Fire Service Assets

Rural Fire Service Assets – Under Section 119 of the Rural Fires Act 1997, "all firefighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the firefighting equipment has been purchased or constructed”.

At present the accounting for such firefighting equipment is not treated in a consistent manner across all Councils. Nambucca Valley Council will continue to account for these assets within the financial statements as per information made available to Council by the RFS.

5.0 History

New Policy.

Department:	**Corporate Services**	**Last Reviewed**	**Resolution Number**
Policy Category	Organisational Policy	19 Aug 2019 – minor updates	
Endorsed By:	General Manager	25 November 2021	480/21
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Policy Owner:	Finance		
Contact Officer:	CFO		
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