MANAGEMENT POLICY & PROCEDURE

Asset Accounting		Document No:	MPP-001
		Approval Date:	
		Approved By:	
Responsible Officer:	Manager Finance	Expiry Date:	
Authorising Officer:			Chief Executive Officer

1. Purpose

The purpose of this policy is to provide guiding principles for the accounting treatment of Council's non-current assets, more specifically:

(a) To ensure compliance with generally accepted principles and practice and the specific adherence to Australian Accounting Standards Board (AASB) and Victorian Local Government Act (LGA) and Regulations
(b) To prescribe the accounting treatment for all non-current assets including:
   a. the recognition of assets
   b. the determination of their carrying amounts
   c. the depreciation charges and impairment losses to be recognised in relation to them
   d. the disposal of assets

   so that users of the financial statements can discern information about an Council's investment in its non-current assets and the changes to such investments.
(c) To document Council's recording and accounting of fixed assets and ensure Council meets the requirements of the Local Government Act 1989 and Australian Accounting Standards.

Council must manage financial risks prudently, having regard for economic circumstances as directed by section 136 of the Local Government Act 1989. This includes the management risks associated with the management and maintenance of assets as directed by Section 136 (3C).

2. Scope

This policy shall be applied in the accounting treatment for all non-current assets. The legislative requirements which Council must comply with include:

(a) **The Local Government Act 1989** Section 131, which provides that Council must prepare Financial Statements in accordance with the Act.
(b) **Local Government (Planning and Reporting) Regulations 2014**, and other industry guidelines.
(c) **Australian Accounting Standards Board (AASB)**, this policy has been developed in accordance with the following AASB Standards:
   a. AASB 116: Property, Plant and Equipment
   b. AASB 136: Impairment of Assets
   c. AASB 1049: Whole of Government and General Government Sector Reporting
   d. AASB 1031: Materiality
   e. AASB 1051: Land Under Roads
   f. AASB 13: Fair Value Measurement
   g. AASB 5: Non-current Assets Held for Sale and Discontinued Operations
   h. AASB 117: Leases (superseded 1 January 2019)
   i. AASB 16: Leases
   j. AASB 137: Provisions, Contingent Liabilities and Contingent Assets
   k. AASB 138: Intangible Assets
   l. AASB 140: Investment property
   m. AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors
   n. UIG Interpretation 1030 – Depreciation of Long Lived Physical Assets: Condition Based Depreciation and Related methods
   o. UIG Interpretation 1055 – Accounting for Road Earthworks
   p. SAC4 Statement of Accounting Concepts – Controlled Assets

3. Application

This policy directs those Council officers who are charged with accounting for Council's assets and related purposes.

4. Definitions

(a) **Asset**
Items which have a useful life, service potential, or future economic benefit in excess of 12 months and are under the control of Council. Control over, rather than ownership is the essential determinant for an asset.
There are three tests which must be satisfied before an item can be recognised as an asset:
a. it must be controlled by Council;
b. it must be probable that the benefits embodied in the asset will be realised; and
c. it must have a cost or other value which can be reliably measured.

(b) **Asset Class and Category**
The grouping by which assets are disclosed in the financial statements and accompanying notes. The class and category will relate to the functional areas of operation or activity of Council. The Asset Class is the material level at which Council will prepare the annual balance sheet for reporting in the Annual Report eg: The Infrastructure Asset Class includes Asset Categories such as Road Pavement and Seals, Bridges, Footpaths and Cycleways, Drainage and Sewerage, Recreational, Leisure and Community, Parks, Open Spaces and Streetscapes and Off Street Car-parking (refer appendix 1 for listing of asset categories).

(c) **Asset Register**
A subsidiary record supporting the balances of the general ledger control account and records the key data for each asset.

(d) **Carry Amount**
The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

(e) **Cash Generating Unit**
A cash-generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

(f) **Cost**
The amount of cash paid, or the fair value of other consideration given to acquire an asset at the time of its original acquisition or construction including costs of making the asset ready for use. Where the asset is acquired at no cost, or for a nominal costs (as the case with developer and other contributed assets), the cost is its fair value as at the date of acquisition.

(g) **Depreciation**
The systematic allocation of the depreciable amount of an asset over its useful life; also known as Annual Depreciation or Depreciation Charge.

(h) **Fair Value**
The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arms-length transaction in the following market conditions:
a. active & liquid market – current market price
b. active & liquid market not available – current market prices for assets that are similar in use, type and condition
c. specialised assets (where no market evidence of its market selling price) – replacement cost of the assets remaining future economic benefits

(i) **Impairment**
The amount by which the carrying amount of an asset exceeds its recoverable amount.

(j) **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 statements; or
b. Affect the discharge of accountability by the management or governing body of the entity.

The size or nature of the item, or a combination of both, could be the determining factor**.**

(k) **Non-Current Physical Asset**
A physical resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. Any asset which is not expected to be fully consumed, realised, sold or otherwise disposed of within one financial year.

(l) **Revaluation**
The act of recognising a reassessment of values of non-current assets at a particular date.

(m) **Useful Life**
The period over which an asset is expected to be available for use.

(n) **Valuation**
The process of determining the worth of an asset or liability. Different valuation methods may be appropriate in different circumstances.

Policy

4.1 Recognition and Recording of Assets

5.1.1 Initial Recognition and Valuation of an Asset

AASB 116 Property, Plant and Equipment states:
The cost of an item of property, plant and equipment shall be recognised as an asset, if and only if:

(a) It is probable that future economic benefits associated with the item will flow to the entity; and
(b) The cost of the item can be measured reliably.

In accordance with AASB 116:

(a) An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost;
(b) Non-withstanding this, where an asset is acquired at no cost, or for a nominal cost (as is the case with developer and other contributed assets, ie: granted assets), the cost is its fair value as at the date of acquisition.

Existing assets identified as not being reported in the financial statements for the preceding financial reporting period (found assets) will be treated in accordance with AASB 116(b).

The treatment of assets based on management and ownership structures are detailed in the table below:

	Asset Management (Controlling Entity of Assets)						
Land Ownership	**Council Managed (Direct)**	**Council Managed (Delegated)**	**Council Managed (Contract)**	**Council Leased, Licensed to Agreed (Council Lessee/ Licensee)**	**Asset Commercially Leased (Council Lessor)**	**Other (noncom mercial) Lease (Council Lessor)**	**DELWP Local Committee**
Council Land	1	1	1		2	3	
Crown Land – SCS Committee of Management	1	1	1		2	3	
Crown Land – Vested	1	1	1		2	3	
Crown Land - Lease	1	1	1		2	3	
Crown Land – Non Council Managed Other Committee of management				3			4
Private Land				3			
Government Road	1			1			4

	Asset Management (Controlling Entity of Assets)						
Mobile/Non-Fixed physical Asset Ownership	**Council Managed (Direct)**	**Council Managed (Delegated)**	**Council Managed (Contract)**	**Council Leased, Licensed or Agreed (Council Lessee/ Licensee)**	**Asset Commercially Leased (Council Lessor)**	**Other (non-commerci al) Lease (Council Lessor)**	**DEPI or DEPI Local Committee**
Council	1				2	3	
Private				6			

	Asset Management (Controlling Entity of Assets)						
Intangible Asset Ownership	**Council Managed (Direct)**	**Council Managed (Delegated)**	**Council Managed (Contract)**	**Council Leased, Licensed or Agreed (Council Lessee/ Licensee)**	**Asset Commercially Leased (Council Lessor)**	**Other (non-commerci al) Lease (Council Lessor)**	**DEPI or DEPI Local Committee**
Council	1				2	3	
Private				6			

1. Expenditure is recognised per Asset Recognition rules of this policy
2. Expenditure is recognised per Asset Recognition Rules of this policy but asset recorded on the Asset Register is not depreciated
3. Refer to specific agreement in place outlining the treatment of expenditure. If no agreement in place, asset remains on the asset register until an agreement is in place
4. Any expenditure is at Council's discretion and is deemed to be operational.
5. Assets are not recognised until the title is issued and the asset has finished its maintenance period.
6. Assets are not recognised.

5.1.2 Recognition Cost

AASB 116 defines the cost of an item of a property, plant or equipment asset as comprising:

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(b) Any costs directly attributable to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management; and

(c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurred either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventoried during that period.

Activities associated with acquisition/creation of new assets are detailed in the table below:

Recurrent Expenditure	Capitalised Expenditure
• Strategic planning reports • Project scoping and investigation, valuation reports, planning approvals • Costs of introducing a new asset (including advertising) • Administration and other general overhead costs	• Survey and design • Professional fees • Site preparation • Construction • Contract payments • Council direct costs, wages, salaries, plant hire, materials, on-costs, traffic managements • Project overheads • Supervision • Transport, installation, assembly and testing • Project management

4.2 Recognition Thresholds

Council applies threshold limits when recognising assets. In the context of materiality, Council does not recognise every non-current asset. Under AASB 1031 Materiality, the test for asset recognition thresholds is whether, for a given threshold, the application of a lower value threshold would produce a materially different financial position or operating result. The following recognition thresholds have been determined as appropriate for Council:

Asset Class	Asset Category	Threshold $'000
Land		All
Land Under Roads		All
Heritage Buildings		5
Buildings		
Plant, Machinery and equipment		1
Fixtures, fittings and furniture		1
Computers and telecommunications		1
Sealed Road Pavements	Link & Collector Roads	5
	Access 1 and Below	5
	Concrete	5
Unsealed Road Pavements	Link & Collector Roads	5
	Access 1 and Below	5
Seals	Spray Seal	5
	Asphalt	5
Road Kerb and Channel		5
Traffic Control Devices		5
Bridges and Major Culverts	Timber Bridges	5
	Other Bridges	5
Footpaths and Cycleways	Concrete	5
	Asphalt	5
	Brick	5
	Gravel	5
Drainage and Sewerage	Drainage	5
	Sewerage	5
	Septic Tanks	5
Recreation, leisure and community facilities		5

Parks, Open spaces and streetscapes		5
Off Street car parks	Sealed Pavement	5
	Unsealed Pavement	5
	Seal	5

NOTE: Where the value of individual assets fall below the asset threshold for capitalisation, but the assets form part of a network, consideration will be given to capitalising the individual asset based on whether the aggregate value of those assets exceeds the capitalisation threshold.

Capital Expenditure

5.3.1 Capital Expenditure Approval

All capital expenditure projects require approval prior to the construction or purchase of an asset. All types of capital expenditure are approved via the annual budget process, where budget proposals for capital works are reviewed and authorised by Council.

Any subsequent construction or purchase of an asset, not approved as part of the annual budget process, must be reviewed and authorised by a Council resolution.

5.3.2 Capitalisation and Recording of Assets

The following table assigns responsibilities in the process of capitalistion of costs of assets. The Asset Management Team and the Management Accounting Team will review capital expenditure purchases to ensure the asset meets the recognition criteria described in 5.1.1 and 5.1.2

Asset Class	Asset Identification/Handover	Asset Management System Update	Capitalisation
Land	Property and Legal Officer	Assets Officer	Management Accounting
All buildings	Project Manager	Assets Officer	Management Accounting
Plant, machinery and equipment	Fleet Officer	Assets Officer	Management Accounting
Fixtures, fittings and furniture	Project Manager or Coordinator – Facilities Operations	Assets Officer	Management Accounting
Computers and telecommunications	Manager Information Services	Assets Officer	Management Accounting
Roads	Project Manager	Assets Officer	Management Accounting
Bridges and major culverts	Project Manager	Assets Officer	Management Accounting
Footpaths and cycleways	Project Manager	Assets Officer	Management Accounting
Drainage and sewerage	Project Manager	Assets Officer	Management Accounting
Recreation, leisure and community facilities	Project Manager	Assets Officer	Management Accounting
Parks, open spaces and streetscapes	Project Manager	Assets Officer	Management Accounting
Off street car parks	Project Manager	Assets Officer	Management Accounting

4.3 Asset Disposals

Assets may be disposed by the following processes:

(a) sale, Auction or Tender
(b) disposal by scrapping where the asset has little or no resale value
(c) disposal by replacement
(d) disposal by gifting to other entities

The asset disposal steps are outlined as follows:

5.4.1 Decision to dispose

Assets may be disposed through replacement as part of a Renewal or Capital Program. These Programs are adopted by Council and disposal through this process does not require further approval.

Regarding other one off asset disposals, before any assets are disposed of it is necessary to confirm and approve that they are suitable for disposal. Approval to commence the disposal process must be obtained from the relevant Service Manager as per Councils Roles and Responsibility Matrix. An asset may be suitable for disposal if it is:

(a) no longer required,
(b) unserviceable or beyond economic repair,
(c) technologically obsolete or operationally inefficient,
(d) surplus to current or immediately foreseeable needs,
(e) part of an asset replacement program, or
(f) belonging to other agency or authority.

5.4.2 Estimate the value

An estimate of the value of the asset to be disposed of should be considered. This may be through a formal valuation or estimated by an officer with a reasonable understanding of the assets worth based on knowledge or market comparison.

5.4.3 Factors to consider in disposal

Apart from the monetary value of the asset, the following factors should be considered as part of the disposal process:

- the market availability for the goods
- time considerations
- options for recycling the goods
- Council resources required to manage the disposal
- costs associated with the disposal, including transportation costs and administration / advertising costs

5.4.4 Select appropriate disposal method

Council Officers will, where appropriate, dispose of assets through one of the following methods:

- ***Trade-in:*** trading in equipment to suppliers;
- ***Expressions of interest:*** advertising for expressions of interest from buyers;
- ***Open Tender:*** openly seeking bids through tenders;
- ***Writing off the goods:*** recycling or destruction of goods;
- ***Sale or Transfer to other Agencies***

5.4.5 Obtain approval for disposal

Once a preferred disposal method has been identified the appropriate approval to proceed with the disposal is to be obtained in accordance with the schedule below:

<table>
<tr><th>Disposal Type</th><th>$1 - $20,000</th><th>$20,000 - $150,000</th><th>> $150,000</th></tr>
<tr><td>Trade-in</td><td rowspan="5">Service Manager</td><td rowspan="5">Service Manager’s General Manager</td><td rowspan="5">CEO</td></tr>
<tr><td>Expressions of interest</td></tr>
<tr><td>Open Tender</td></tr>
<tr><td>Writing off the goods</td></tr>
<tr><td>Transfer of Assets to other Authorities (initiated by Council)</td></tr>
<tr><td>Sale of Land</td><td>Council</td><td>Council</td><td>Council</td></tr>
<tr><td>Compulsory Transfer of Assets to other Authorities (initiated by other Authority)</td><td>Strategic Asset Manager</td><td>Strategic Asset Manager</td><td>Strategic Asset Manager</td></tr>
</table>

5.4.6 Undertake disposal

Proceed with the disposal in line with the approved disposal method.

5.4.7 Report Disposal

Disposal is to be reported to the Management Accounting Team and Strategic Asset Manager and appropriate action is to be undertaken on Council registers. It is the responsibility of the Asset Management Team to identify those assets that have been “replaced” by virtue of the capital works undertaken.

4.4 Depreciation

AASB 116 Property, Plant and Equipment set out the requirements for depreciation of assets:

Buildings, land improvements, plant and equipment, infrastructure, and other assets having limited useful lives are systematically depreciated over their useful lives to the Council in a manner which reflects consumption of the service potential embodied in those assets. Estimates of remaining useful lives and residual values are made on a regular basis with major asset classes reassessed annually. Depreciation rates and methods are reviewed annually.

Where assets have separate identifiable components that are subject to regular replacement, these components are assigned distinct useful lives and residual values and a separate depreciation rate is determined for each component.

5.5.1 Depreciation Method and Useful Lives

Council has determined the depreciation method and estimated useful life of its assets as follows:

Asset Class		Depreciation Period	Method
Heritage Buildings		100 - 150 years	Straight Line
Buildings - Complex	Structure	100 years	Straight Line
	Roof	50 years	Straight Line
	Fit Out	25 years	Straight Line
	Services	20 years	Straight Line
Buildings - Simple		40 years	Straight Line
Plant, Machinery and equipment		2 - 15 years	Reducing Balance
Fixtures, fittings and furniture		3 - 10 years	Straight Line
Computers and telecommunications		3 - 10 years	Straight Line
Sealed Road Pavements	High Traffic	90 years	Straight Line
	Low Traffic	100 years	Straight Line
	Concrete	40 years	Straight Line
Unsealed Road Pavements	High Traffic	16 years	Straight Line
	Low Traffic	20 - 25 years	Straight Line
Seals	Spray Seal	15 - 18 years	Straight Line
	Asphalt	25 - 30 years	Straight Line
Road Kerb and Channel		70 years	Straight Line
Traffic Control Devices		25 - 80 years	Straight Line
Bridges and Major Culverts	Timber Bridges	40 years	Straight Line
	Other Bridges	80 - 140 years	Straight Line
Footpaths and Cycleways	Concrete	65 years	Straight Line
	Asphalt	30 years	Straight Line
	Brick	50 years	Straight Line
	Gravel	20 years	Straight Line
Drainage and Sewerage	Drainage	80 - 150 years	Straight Line
	Sewerage	80 years	Straight Line
	Septic Tanks	30 years	Straight Line
Recreation, leisure and community facilities		10 - 40 years	Straight Line
Parks, Open spaces and streetscapes		10 - 50 years	Straight Line
Off Street car parks	Sealed Pavement	100 years	Straight Line
	Unsealed Pavement	20 years	Straight Line
	Seal	15 - 30 years	Straight Line

5.5.2 Annual Review of Depreciation Method and Estimated Useful Lives

It is the responsibility of the Management Accounting Team, in consultation with the Asset Management Team, to review the useful lives of all Council assets on an annual basis.

4.5 Revaluations and Fair Value Assessments

5.6.1 Measurement

AASB116 Property, Plant and Equipment states the following in regards to the measurement of an asset after initial recognition:

An entity shall choose either of the following models as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

(a) 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.

(b) Fair Value
An item is recognised at fair value at the time of acquisition

(c) Revaluation Model
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 impairment losses. Revaluations shall be made with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Council has elected to use the following models for each asset class after initial recognition of an asset:

Asset Class	Model
Land	Revaluation
Land Under Roads	Fair Value
Buildings non-specialised	Revaluation - Market Value
Buildings (all other)	Revaluation – Unit Rate/ Condition Based
Plant, Machinery and Equipment	Cost
Furniture, Fittings and Furniture	Cost
Computers and telecommunications	Cost
Roads	Revaluation – Unit Rate/ Condition Based
Bridges	Revaluation – Unit Rate/ Condition Based
Footpaths and Cycleways	Revaluation – Unit Rate/ Condition Based
Drainage and Sewerage	Revaluation – Unit Rate/ Condition Based
Recreation, Leisure and Community Facilities	Revaluation – Unit Rate/ Condition Based
Parks, Open Spaces and Streetscapes	Revaluation – Unit Rate/ Condition Based
Off Street Car Parks	Revaluation – Unit Rate/ Condition Based

5.6.2 Frequency of Valuations

AASB116 provides the following commentary in relation to the frequency of revaluations:

- The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued.
- When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.
- Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluations.
- Frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three to five years.

It is Council policy to formally revalue those asset classes using the revaluation model every 3 years, in line with conditions audits completed by the Asset Management department.
Every financial year, a fair value assessment is undertaken for those asset classes using the revaluation model.

5.6.3 Fair Value Assessments

The purpose of the fair value assessment is to ensure that the carrying amount of an asset does not materially differ from its fair value. If there is a material difference of an asset class of more than 10%, the Finance Manager, in consultation with the auditors, will determine if a desktop revaluation of the replacement cost of the asset is required with reference to the next scheduled formal revaluation.

Fair value assessments are undertaken annually in June, and are to be carried out by the following departments within Council:

Asset Class	Department Responsible for Fair Value Assessment/ Revaluations Model
Land	Council's Property Valuer
Land Under Roads	NA
Buildings non-specialised	Asset Management Team
Buildings (all other)	Council's Property Valuer
Plant, Machinery and Equipment	Not applicable – Cost Model
Furniture, Fittings and Furniture	Not applicable – Cost Model
Computers and telecommunications	Not applicable – Cost Model
Roads	Asset Management Team
Bridges	Asset Management Team
Footpaths and Cycleways	Asset Management Team
Drainage and Sewerage	Asset Management Team
Recreation, Leisure and Community Facilities	Asset Management Team
Parks, Open Spaces and Streetscapes	Asset Management Team
Off Street Car Parks	Asset Management Team

All fair value assessments are reviewed and signed off by the Finance Manager and/or the Strategic Asset Manager.

4.6 Impairment of Assets

Events and circumstances may occur that reduce the level of future economic benefits expected to be received from an asset. Such reductions in future economic benefits are termed 'impairment losses'.

AASB136 Impairment of assets requires the following:

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

In assessing whether there is any indication that an asset may be impaired, an entity shall consider as a minimum the following indicators:

(a) External

- During the period, an asset's market value or depreciated replacement cost has declined significantly more than would be expected as a result of the passage of time or normal use.
- The carrying amount of the net asset of the entity is more than its market capitalisation or depreciated replacement cost.

(b) Internal

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

If any of the impairment indicators or any other indicators exist, the asset must be written down to its recoverable amount.

The recoverable amount of an asset is measured as the higher of an asset's or cash generating unit's fair value less costs to sell, or its value in use (refer to AASB136).

Generally, Council will use fair value in determining a fixed asset's recoverable amount. However, if value in use is to be used, refer to AASB136 to determine how to calculate the asset's recoverable amount.

The Management Accounting Team is responsible for ensuring:

- Impairment indicators are reviewed at reporting date.
- If an impairment indicator exists, determine the affected assets recoverable amounts using fair value.
- Any impairment losses are written off to expense.

4.7 Reporting

The Audit and Risk Committee will be furnished with a report detailing revaluations, impairments, disposals, and useful life reviews for noting immediately prior to the adoption of the annual financial statements.

Any instance of non-compliance with this policy shall be reported to Management and noted by the Audit and Risk Committee.

5. Records

Record	Retention/Disposal Responsibility	Retention Period	Location
NA			