ASSET ACCOUNTING POLICY	
Council Policy	
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1. POLICY STATEMENT

Port Augusta City Council's assets shall be recognised, capitalised and revalued in accordance with Australian Accounting Standards and this Policy.

2. PURPOSE

2.1 Purpose

This Policy aims to ensure that Council's accounting records, accounts and financial statements are prepared and maintained in accordance with all relevant legislation including the Australian Accounting Standards and the Local Government Act and Regulations.

2.2 Scope

This policy will apply to all assets owned or controlled by the Port Augusta City Council and contained with Council's Asset Register.

2.3 Definitions

<u>Asset Definitions</u>

An ***Asset*** is 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. The three elements defining an asset are:

- future economic benefits (goods and services provided by the asset);
- control by the entity (ability of entity to benefit from future economic benefits); and
- occurrence of a past event (asset must be in existence).

Accumulated Depreciation is the total of all the annual depreciation that has been applied to the asset since the asset has been used by the entity.

Capital New/Upgrade is a new asset or renewing an asset thereby providing a higher level of service (e.g. sealing an unsealed road; upgrading a stormwater pipe with a larger size).

Capital Replacement is replacing an existing asset to extend its serviceability but not providing a higher level of service (e.g. resealing, re-sheeting an unsealed road).

Carrying Amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable Amount is the cost of an asset or other amount substituted for cost, less its residual value.

Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Impairment is the decline in the future economic benefits or service potential of an asset, over and above the use reflected through depreciation.

Maintenance is recurrent operating expenditure such as repairs, fuel, power, materials, labour, overheads and general services. It includes both reactive maintenance and planned maintenance programs and non-capitalised minor equipment purchases.

Replacement Cost is the current cost to replace an item of property, plant and equipment on a like for like basis.

Residual Value of an asset is 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.

Useful Life is the period for which an asset is expected to be available for use by an entity.

Value in Use is the present value of the future cash flows expected to be derived from an asset over its useful life.

2.4 Strategic Reference

5 Governance and Financial Sustainability

5.3 We are in a surplus financial operating position

5.5 We meet or exceed legislative and accreditation requirements for all relevant programs.

3. PRINCIPLES

3.1 Asset Recognition

Delegation to purchase or construct an asset is contained with Council's Procurement Policy.

An asset is recognised in the balance sheet when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. All assets will be initially recognised at cost, except when an asset is acquired at no or nominal cost, and thereby recognised at its fair value as at the date of acquisition.

Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects fees and engineering design fees and all other costs incurred. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.

All non-current assets purchased or constructed will be capitalised as the expenditure is incurred and depreciated as soon as the asset is held "ready for use".

Council has elected not to recognise land under roads as it is of the opinion that it is not possible to attribute a value sufficiently reliable to qualify for recognition.

Assets with an economic life in excess of one year will be capitalised where the cost of acquisition exceeds materiality thresholds set by Council for each type of asset. No capitalisation threshold is applied to the acquisition of Land.

Materiality thresholds for capitalisation of assets are:

Buildings, Structures and Site Improvements	\$5,000
Road Construction/Reconstruction	\$5,000
CWMS, Waste Water and Stormwater	\$3,000
Paving, Footpaths, Kerb and Gutter	\$2,000
Plant, Contents and Vehicles	\$1,000

Assets which are not completed as at 30th June in any year will be shown in the Balance Sheet as Work in Progress. These assets will not attract depreciation until completion.

All new assets must be added to Council's Insurance Schedule at date of acquisition.

3.2 Asset Classes

AASB 116 requires Council's assets to be classified into classes. Council has nominated the following classes for its non-current assets:

Land / Buildings / Structures / Site Improvements
Plant / Contents / Vehicles
CWMS / Waste Water / Stormwater
Road Infrastructure

The Council will maintain an Asset Register using the Asset Classes as described in this policy.

3.3 Fair Value Hierarchy

The requirements of AASB 13 Fair Value Measurement have been applied to all valuations undertaken since 1 July 2013. The principles of AASB 13 are intended to increase the consistency and comparability of fair value estimates in financial reporting.

AASB 13 requires the use of a Fair Value Hierarchy where assets are reported as level 1, 2 or 3 inputs. This refers to how the value of the asset has been determined.

Level 1 Inputs: Quoted Prices – Active Markets
A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (eg on different exchanges).
Eg – Financial Assets

Level 2 Inputs: Observable Inputs
Level 2 inputs include the following:
a) Quoted prices for similar assets or liabilities in active markets.
b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
c) Inputs other than quoted prices that is observable for the asset.
Eg – Land, Council Buildings on Non Community Land, Plant, Furniture and Equipment

Level 3 Inputs: Unobservable Inputs
An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data and shall adjust that data if reasonably available information indicates that other market participants would use different data.
Eg – Buildings on Community Land and Infrastructure Assets

3.4 Asset Depreciation and Useful Lives

Other than land, all recognised assets will be systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets.

Useful lives are estimated for each individual asset and asset components, where applicable. In estimating useful lives, it is important to consider technical and commercial obsolescence, as well as legal and other limitations on continual use.

Depreciation of an asset begins when it is available for use, ie when it is in the condition necessary for it to be capable of operating in the manner intended by management and ends when it is classified as held for sale or when derecognised.

Depreciation of Council's assets is calculated on a straight-line basis using the table below of estimated useful lives. The actual useful life and depreciation rates may be varied for specific assets where the asset quality and environmental and/or operational conditions require a different treatment.

Useful lives for infrastructure assets have been estimated based on the best information available to Council, but appropriate records covering the entire life cycle of these assets are not available, and extreme care should be used in interpreting financial information based on these estimates.

Plant, Contents and Vehicles	
Furniture and Contents	3 to 20 years
Plant and Equipment	5 to 20 years
Vehicles	10 to 20 years
Buildings, Structures and Site Improvements	
Buildings – Structure	30 to 150 years
Buildings – Components	20 to 60 years
Park Furniture	7 to 30 years
Playground Equipment	15 to 30 years
Carparks, Pathways and Fencing	30 to 50 years
BMX Track (Northey & Progress)	20 years
Board Walk – Birdlake & Loudon Road	30 to 40 years
Monuments and Memorials	50 to 100 years
Shade Sails and Shelters	15 to 40 years
Swimming Pools	40 to 50 years
Marine Structures	25 to 80 years
CWMS, Waste Water and Stormwater	
Stormwater Drains	60 to 100 years
Culverts	60 to 80 years
Flood Control Structures	50 to 100 years
Basins	50 years
Reticulation Pipes – PVC70	60 to 70 years
Reticulation Pipes – other25	50 to 70 years
Wastewater Irrigation	80 to 100 years
Pumps & Telemetry	25 to 50 years
Reclaimed Water Plant & Irrigation System - Civil	25 to 50 years
Reclaimed Water Plant & Irrigation System – Mechanical/Electric	25 to 40 years
CWMS – Pipe Assets & Node Assets	70 years
Road Infrastructure	
Sealed Roads – Surface Upper	10 to 70 years
Sealed Roads – Surface Lower	60 to 105 years
Sealed Roads – Pavement Upper	50 to 100 years
Sealed Roads – Pavement Sub Base	150 to 300 years
Unsealed Roads - Surface	10 to 25 years
Unsealed Roads - Base	45 to 60 years
Bridges – Concrete	50 to 85 years
Kerb and Gutter	60 to 65 years
Paving and Footpaths - Surface	10 to 45 years
Paving and Footpaths - Base	90 years

3.5 Asset Impairment

Impairment is the decline in the future economic benefits or service potential of an asset, over and above the use reflected through depreciation (eg a Council asset is damaged in a natural disaster and its carrying value is no longer valid).

AASB 136 requires that a Council assess at each reporting date whether there is any indication that any assets under its control may be impaired. External indicators for impairment could be as a result of significant adverse charges in the technological, economic or legal environment. Internal indicators for impairment could include obsolescence or physical damage of an asset.

Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment shall be determined subject to the provisions of AASB 1031 Materiality, whereby the total change in the written down value for the asset or the total impact on the depreciation shall be material.

When impairment occurs, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use). An impairment loss is recognised in the Income Statement, unless the asset is carried at a revalued amount, whereby it is to be treated in the same way as a revaluation decrement against the same asset. An impairment loss can be reversed in subsequent years.

3.6 Asset Disposal

Assets will be disposed of in accordance with Council's Disposal of Land and Assets Policy.

When an asset is sold, the difference between the selling price and carrying amount will be recognised as a gain or loss on disposal in Council's Statement of Comprehensive Income, in accordance with AASB 116.

All asset disposals will be removed from Council's Asset Register and Insurance Schedule at date of disposal.

3.7 Revaluation

AASB 116 requires revaluations to be undertaken with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from that which would be determined using fair value at the reporting date and for the entire class of asset to be revalued simultaneously. Determining the frequency of valuations depends on striking a balance between having relevant, timely information and the cost of obtaining such information.

AASB 116 suggests that comprehensive revaluations every three to five years may be sufficient for non-current assets that experience only insignificant changes in fair value. It also provides that a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and revaluations are kept up to date.

A comprehensive revaluation will include the review and application of current condition assessment, unit rates, useful lives and residual values to determine the total current replacement cost and accumulated depreciation to the date of revaluation. It can be performed by an independent valuer, or by a suitably qualified and experienced Council Officer.

Council intends to conduct comprehensive revaluations on the following basis:
- Land and Buildings, and Plant and Equipment to be revalued by external valuers every five years;
- Infrastructure to be revalued by internal staff on a rolling basis, with a comprehensive revaluation to be undertaken by external valuers every five years.

Asset revaluation reports will be reviewed by the Audit Committee.

3.8 Leases

In accordance with AASB16 Leases effective from 1 July 2019, all leases (subject to the exceptions described below), will be capitalised by recognising a Right of Use asset together with a liability for the present value of the lease obligation.

Depreciation will be calculated on the Right of Use asset and interest will be calculated on the lease liability.

The value of the Right of Use asset and the lease liability will include non-cancellable lease payments and payments for option periods which Council is reasonably certain to exercise.

The following leases will be excluded from capitalisation:
- Short Term Leases – leases for a period of 12 months or less
- Low Value Items – items which when new have value below $10,000 e.g. laptops, tablets, computers, small items of furniture and equipment. This low value item is applied to an item, not to a group of items, and applies to the 'as new' value, not a second hand value.

3.9 Asset Registers

The asset registers will maintain details of Fair/Replacement/Historical Value, Accumulated Depreciation and Carrying Amount for each asset and asset class, along with historical information relating to revaluation and impairment.

Infrastructure assets will be recorded in the Conquest asset management system by the Manager Technical Services. Land and Buildings, and Plant, Contents and Vehicle assets will be individually recorded in Excel Spreadsheets by the Accountant.

Asset additions and disposals will be allocated to capital cost codes and monitored regularly. Reconciliation and Capitalisation to the Balance Sheet will occur at the end of the financial year. Depreciation will be manually journaled from the Asset Registers at 30 June.

3.10 Financial Indicators

The Local Government (Financial Management) Regulations 2011 require Councils to report on three financial indicators to evaluate their financial performance from the information provided in the annual financial statements. The Asset Renewal Funding Ratio provides a direct link to asset management as follows.

The Asset Renewal Funding Ratio is a measure of capital expenditure on the renewal or replacement of existing depreciable assets divided by the optimal level of expenditure required by the Asset Management Plans. This ratio indicates if the assets are being replaced at the rate at which they are wearing out.

Each time the Council reviews and updates the Long Term Financial Plan, develops the Annual Business Plan and reviews the Annual Budget, the impact on the Asset Renewal Funding Ratio and other financial indicators should be considered.

Council sets a target range in the Long Term Financial Plan for each of the three financial indicators to guide the future planning. Council acknowledges that a ratio may fall outside of the target range during some periods and should be assessed on average over a three or more year period.

3.11 Capital Revenue

Council will recognise revenue in accordance with Australian Accounting Standard AASB1058 and AASB15.

When Council receives grant revenue for capital works projects, the accounting treatment of this revenue will be in accordance with the "matching principle", whereby revenue received for capital expenditure will be treated as capital revenue. Capital revenue is reported as "Amounts received specifically for new or upgraded assets" on the Statement of Comprehensive Income. The recognition of capital revenue will apply to grant funds for the Local Roads and Community Infrastructure Program (LRCIP) and Local Government Infrastructure Partnership Program (LGIPP) when utilised for a capital works project, and when objectives or milestones are achieved in accordance with the funding agreement (if applicable).

4. RESPONSIBILITY & REVIEW

4.1 Responsible Officer

Director Corporate & Community Services

The Accountant and Manager Technical Services will ensure the requirements of this Policy are adhered to in the treatment and recognition of assets.

4.2 Availability

This policy will be available on Council's website.

4.3 Review

This policy will be reviewed within 12 months of a General Election for Local Government, or as required to meet other obligations.

5. REFERENCES

5.1 Legislation

Australian Accounting Standards Board Standards
Local Government Act 1999
Local Government (Financial Management) Regulations 2011

5.2 Other References

Procurement Policy
Disposal of Land and Assets Policy