

 Central Highlands Regional Council	CENTRAL HIGHLANDS REGIONAL COUNCIL POLICY	
	Asset Accounting	POLICY REF NO CHRCP: 0051

1.0 Policy Purpose

- 1.1 Council has an obligation to ensure that all assets are managed efficiently in accordance with the council's Asset Management Plan. This policy outlines the mandatory asset management accounting requirements to maintain compliance with the *Local Government Act 2009* and Australian Accounting Standards.
- 1.2 The purpose of this policy is to provide guidance, clarity and consistency regarding the treatment of capital expenditure, depreciation, revaluations, disposals and acquisitions which will provide greater understanding and accuracy of council's capital requirements.

2.0 Recognition of Non-Current Assets

- 2.1 This section of the policy sets out when council's non-current assets should be recognised in the Statement of Financial Position and how to treat those assets which do not satisfy the recognition criteria.

3.0 Recognition Criteria

- 3.1 Where an asset is constructed the cost will be recognised as it is incurred. Projects are to be capitalised within three months of being financially complete, or prior to a comprehensive revaluation whichever occurs first.

Where an asset is contributed/donated by a developer it is recognised when the council assumes responsibility for the asset.

This is:

- where the construction of contributed assets has been completed prior to the lodgment of a Plan of Survey, the date of registration of a Plan of Survey with the Department of Resources; or
- where the construction of contributed assets has not been commenced or completed prior to the lodgment of a Plan of Survey, the date of the first day in the 'on maintenance' period; or
- in cases where no Plan of Survey is involved, the date of the first day in the 'on maintenance' period.

3.2 Council will recognise a non-current asset when:

- The recognition criteria have been met; and
- The cost exceeds the recognition threshold set by council
- All non-current assets are initially recognised at cost when it exceeds the recognition threshold, with the exception of network assets.

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3.3 Recognition of assets taking into account the following:

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- Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including all planning and design costs incurred.
- For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.
- The cost of non-current assets constructed by council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.
- Capital work-in-progress is to be disclosed as a separate category for financial reporting purposes, at accumulated cost.
- Once the project is completed the total costs should be transferred from work in progress to the relevant property, plant and equipment asset class.
- At completion of project, a Capital Completion Form is required as formal documentation recognising the capitalisation of the work-in-progress.
- Costs on assets incurred after initial recognition are to be capitalised whenever the associated work either renews, extends or upgrades the asset's completed or underlying service potential.
- Capital expenditure below the asset recognition threshold will be treated as an operational expenditure and expensed during the financial accounting period unless the cost is associated with a network asset, or unless construction is staged over different accounting periods.

4.0 Renewal/Upgrade/Improvement for Existing Non-Current Assets

4.1 After initial recognition of all non-current assets at cost, assets are maintained to their optimum service potential through annual capital programs. Each year capital programs are budgeted, and the asset custodians will have input into projects related to the asset classes. Based on the asset conditions, the use or consumption of assets and service potential, projects will be budgeted. This will include renewals, upgrades or improvements to the assets.

- Renewals - Re-establishing an existing asset's service potential; required once an asset's condition degrades to the point the related service can no longer be adequately provided.
- Upgrade - Enhancement to existing assets to provide a higher level of service from the current level of service.
- Improvement - Improve an existing assets condition from the current condition or service potential which will then improve the useful life and remaining useful life.

4.2 Renewals, upgrades and improvements will be subject to the same accounting treatment as the underlying asset. When capitalising the relevant asset will be added with the actual capital spent and the condition will be improved based on the in-house engineer's condition assessment.

5.0 Table of Asset Classes and Asset Recognition Threshold

Asset Class	Financial	Asset Class	Asset Recognition Threshold	Useful life (Years)	Measurement Model	Valuation Approach
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Asset Financial Class	Asset Class	Asset Recognition Threshold	Useful life (Years)	Measurement Model	Valuation Approach
Land	Land	\$1	N/A	Fair Value	Market Value
Building	Buildings	\$10,000	10 - 120	Fair Value	Market Value and Current Replacement Cost
Facilities	Site Improvements	\$10,000	10 - 80	Fair Value	Current Replacement Cost
Road Infrastructure	Roads	\$10,000	9 - Infinite	Fair Value	Current Replacement Cost
	Bridges	\$10,000	20 - 100	Fair Value	Current Replacement Cost
	Culverts	\$10,000	50 - 80	Fair Value	Current Replacement Cost
	Footpaths	\$10,000	15 - 100	Fair Value	Current Replacement Cost
	Kerbs & Channels	\$10,000	80 - 100	Fair Value	Current Replacement Cost
	Carparks	\$10,000	15 - 80	Fair Value	Current Replacement Cost
	Floodways	\$10,000	20 - 50	Fair Value	Current Replacement Cost
	Stormwater Pits	\$10,000	50 - 100	Fair Value	Current Replacement Cost
	Stormwater Pipes	\$10,000	60 - 100	Fair Value	Current Replacement Cost
Plant & Equipment	Plant & Equipment	\$5,000	2 - 35	Historical Cost	Not applicable
ICT Plant & Equipment	Plant & Equipment	\$5,000	2-10	Historical Cost	Not applicable
Intangible Asset	Intangible Assets	\$10,000	3-15	Historical Cost	Not applicable
Heritage & Cultural	Heritage & Cultural	\$10,000	7-100	Historical Cost	Not applicable
Furniture & Fitting	Furniture & Fitting	\$5,000	2 - 10	Historical Cost	Not applicable
Sewer Infrastructure	Sewer Mains	\$10,000	40 - 70	Fair Value	Current Replacement Cost
	Sewer Nodes	\$10,000	30 - 50	Fair Value	Current Replacement Cost
	Sewer Pump Stations	\$10,000	10 - 100	Fair Value	Current Replacement Cost
	Sewer Treatment Facility	\$10,000	10 - 100	Fair Value	Current Replacement Cost
	Sewer Equipment's	\$10,000	10 - 100	Fair Value	Current Replacement Cost
Water Infrastructure	Water Mains	\$10,000	50 - 80	Fair Value	Current Replacement Cost
	Water Nodes	\$10,000	30 - 50	Fair Value	Current Replacement Cost
	Water Meter & Service	\$10,000	20 - 55	Fair Value	Current Replacement Cost
	Water Pumps Stations	\$10,000	10 - 100	Fair Value	Current Replacement Cost
	Water Treatment Facility	\$10,000	10 - 100	Fair Value	Current Replacement Cost
	Water Equipment's	\$10,000	10 - 100	Fair Value	Current Replacement Cost

6.0 Depreciation or Amortisation

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6.1 The straight-line depreciation or amortisation method is adopted by council to reflect patterns of consumption for all non-current assets other than parcels of land, which are not subject to depreciation or amortisation. Asset depreciation and amortisation parameters, useful lives, asset condition and residual values are to be reviewed with sufficient regularity to ensure that they are representative of current conditions and expectations at the end of each financial year. The remaining useful life of an asset should be reassessed whenever a major addition or any significant partial disposal is processed.

7.0 Revaluations

7.1 In accordance with AASB116, all non-current assets subject to a revaluation process are to be revalued at fair value. The gross revaluation method is to be applied, whereby any accumulated depreciation at the date of revaluation is restated proportionally to the change in the asset's gross carrying amount. Except for assets that remain valued at cost, a full revaluation is undertaken every three to five years.

7.2 Assets will be valued where applicable considering economic obsolescence, surplus capacity and asset optimisation.

7.3 An interim revaluation using indices developed via a desktop approach is to be undertaken at the end of the financial year for an asset class subject to regular revaluations whenever there has been a material movement in replacement (or market value, where applicable) since the last comprehensive revaluation.

8.0 Impairment

8.1 Non-current assets should always be carried at amounts that are not more than their recoverable amounts. An impairment loss arises when the recoverable amount of a non-current asset is less than the asset's carrying amount and the carrying amount of the asset is reduced to its recoverable amount. As per section 9 of AASB136, council is required to assess at each reporting date whether any assets are impaired. The indicators of impairment include:

- Economic performance.
- Obsolescence by design.
- Significant changes to its primary use.
- Assets valued at fair value.

9.0 Materiality

9.1 Materiality plays an essential part in the decision making process and preparation of the financial statements. This is because information contained or omitted from the financial statements can impair its usefulness to users.

9.2 The materiality concept requires professional judgement as an omission or misstatement of an item if material, individually or collectively, would influence the economic decisions of users of the financial statements or the accountability of management or governing body.

9.3 Assessment of materiality should take into account the surrounding circumstances along with evaluation of the size and nature of the omission or misstatement as these are usually evaluated together.

9.4 The preliminary levels of materiality can be obtained from the Queensland Audit Office Annual External Audit Plan for Central Highlands Regional Council.

9.5 Some guidance in considering materiality thresholds, the following are to be used:

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- an amount equal to or greater than 10% of the appropriate base may be presumed to be material
- an amount equal to or less than 5% may be presumed to be not material, and
- an amount between 5% and 10% requires judgement.

10.0 Definitions

Accumulated Depreciation is the total of the entire annual depreciable amount that has been applied to the asset since the asset has been used by the entity.

Asset Class refers to the categories of assets used by the council for asset management and accounting purposes, such as land, buildings, facilities, infrastructure assets, plant and equipment, furniture and fittings.

Capital Works in Progress refers to capital works not completed within the financial year and needs to be carried into the next financial year.

Council refers to Central Highlands Regional Council.

Current Asset refers to assets controlled by the council that have an economic life greater than one year and are capitalised where the cost of acquisition exceeds materiality thresholds.

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

Fair Value refers to the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. For infrastructure assets, replacement cost represents fair value.

Financially completed projects occur after the practical completion of a project where all the project expenditure is processed to the general ledger, excluding any retention costs.

Future Economic Benefit (or service potential) are the goods and services to be provided by the asset, whether or not the entity received a net cash inflow for their provision.

Maintenance of an asset is periodic expenditure required to ensure that the asset lasts as long as it is expected to last (useful life) and that it provides and continues to provide future economic benefits. Maintenance can also include expenditure on non-current assets that do not meet the capitalisation criteria.

Materiality is a concept which requires professional judgement. An omission or misstatement of an item is material if, individually or collectively, it would influence the economic decisions of users of the financial statements or the accountability of management or governing body. In assessing materiality the size and nature of the omission or misstatement are usually evaluated together along with consideration of the surrounding circumstances.

Network assets are a chain of interconnected but dissimilar assets connected for the provision of the one simultaneous service. Individually, these assets are below capitalisation thresholds, but require recognition in the financial statements due to their collective value.

Practically completed projects are where the majority of the project is practically complete, or the core asset is placed in service and commissioned.

Residual Value 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.

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Retention Costs are costs due to the contractor withheld by the council for a period of time as stipulated in the construction contract.

The Act shall mean the *Local Government Act 2009* (as amended).

The Regulation shall mean the Local Government Regulation 2012 (as amended).

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

Valuation refers to the process of determining the value of an asset.

Written down value (WDV) refers to the amount at which after deducting the accumulated depreciation and accumulated impairment losses.

Strategic Link	s 104, Local Government Act 2009 Chapter 5, Part 3 , Local Government Regulation 2012 Australian Accounting Standards <ul style="list-style-type: none"> • AASB 13 Fair Value • AASB 116 Property Plant and Equipment • AASB 136 Impairment of Assets • AASB 138 Intangible Assets • AASB 1051 Land under Roads • AASB 1041 Revaluation of Non-Current Assets
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