



## ASSET ACCOUNTING

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### 1. POLICY STATEMENT

Council has an obligation to ensure that all assets are managed efficiently in accordance with the Council's Asset Management Plan. This policy provides a framework to regulate and guide the identification, recognition and measurement of non-current assets that provide future economic benefit to Berrigan Shire Council and the community.

This policy outlines the mandatory asset management accounting requirements to maintain compliance with the Local Government Act and Australian Accounting Standards.

### 2. PURPOSE

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.

### 3. SCOPE

This policy applies to all non-current infrastructure, property, plant and equipment (IPPE) recognised in Council, as well as intangible assets.

This policy generally impacts upon all Council employees, volunteers and contractors. Specifically, the policy is directly applicable to Budget Centre Managers and Council officers who have asset management and asset accounting responsibilities.

### 4. DEFINITIONS

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



<b>Asset</b>	A resource which is controlled as a result of past events and from which future economic benefits are expected to flow to the entity.
<b>Asset Class:</b>	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.
<b>Capitalisation threshold</b>	Minimum amount whereby the value of a non-current asset must be capitalised whereas, below this cost the value is expensed.
<b>Capital Works in Progress</b>	Capital Works not completed within the financial year and needs to be carried in to the next financial year.
<b>Carrying amount</b>	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses i.e. its written down value (WDV)
<b>Contributed asset</b>	An asset that is transferred at below or no cost, usually by way of contracts with developers, through government transfer arrangements or as a result of a bequest.
<b>Control</b>	The potential to contribute, directly or indirectly, to the delivery of relevant goods or services in accordance with the entity's objectives of a particular volume, quantity and quality to its beneficiaries including the ability to restrict access of others to those benefits.
<b>Cost</b>	The amount of cash or cash equivalent paid or the fair value of any other consideration given to acquire an asset at the time of its acquisition or construction.
<b>Council</b>	Berrigan Shire Council (BSC)
<b>Decommissioning</b>	The removal, demolition or elimination of an asset's service potential, resulting from a specific management decision.
<b>Depreciable amount</b>	The cost of an asset, or other amount substituted for cost, less its residual value.
<b>Depreciation:</b>	The systematic allocation of the depreciable amount of an asset over its useful life.



<b>Fair Value</b>	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. For infrastructure assets, replacement cost represents fair value.
<b>Future economic benefit</b>	(or service potential): The potential to contribute, directly or indirectly, the delivery of goods and services in accordance with Council's objectives of a particular volume, quantity or quality to its beneficiaries. It includes social, environmental, financial and governance benefits.
<b>Impairment loss:</b>	The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.
<b>Intangible asset</b>	An identifiable non-monetary asset without physical substance.
<b>Maintenance:</b>	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.
<b>Materiality:</b>	As defined by AASB 1031 is 'Information is material, if its omission, misstatement or non-disclosure has the potential, individually or collectively to: <ul style="list-style-type: none"><li>• Influence the economic decisions of users taken on the basis of financial statements or</li><li>• Affect the discharge of accountability by the management or governing body of the entity.'</li></ul>
<b>Network assets</b>	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.
<b>Non-current asset:</b>	An asset held for use rather than exchange and which provides an economic benefit for a period greater than 12 months.
<b>Pattern of consumption</b>	The pattern in which the asset's future economic benefits are expected to be consumed by Council. This maybe constant, increasing, decreasing or variable.



<b>Practically completed</b>	Projects where the majority of the project is practically complete, or the core asset is placed in service and commissioned.
<b>Renewal:</b>	Expenditure that exceeds the useful life or increases the service potential of the asset beyond its current condition but not exceeding its current maximum design level (for example, resealing of a road).
<b>Replacement cost</b>	The cost of replacing the total potential future economic benefit of the existing asset using either reproduction or modern equivalents after taking into account any differences in the utility of the existing asset and the modern equivalent.
<b>Residual value</b>	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.
<b>Retention costs</b>	Costs due to the contractor withheld by the Council for a period of time as stipulated in the construction contract.
<b>Upgrade:</b>	Expenditure that exceeds the useful life or increases the service potential of the asset beyond its current maximum design level – for example, widening a road to add an extra traffic lane or improve safety.
<b>Useful life</b>	The period over which an asset is expected to be available for use by Council; or the number of production or similar units expected to be obtained from the asset by Council.
<b>Valuation</b>	The process of determining the value of an asset.
<b>Written down value</b>	Refer to <b>Carrying amount</b> above

## 5. POLICY IMPLEMENTATION

### 5.1 Responsibilities

Position	Directorate	Responsibility
Mayor	Council	To lead councillors in their understanding of and compliance with this policy, its notes and guidelines.



Position	Directorate	Responsibility
General Manager	Executive	To lead staff (directly and through delegated authority) in their understanding of, and compliance with, this policy and guidelines.
Budget Centre Managers	All Directorates	The Budget Centre Managers must ensure that the asset custodians comply with this policy.
All other staff and committees personnel (Asset custodians)	All Directorates	<p>Staff and committee personnel are custodians of the assets and may be users of the asset as well. They are primarily in charge of the asset and responsible for its physical presence and maintenance.</p> <p>Any change to the asset through construction, addition, disposal, decommissioning, transfer and renewal, upgrade or an action which changes its value as held in Council's books is to be communicated to the Finance Manager.</p> <p>Asset Custodians are personnel who are delegated the responsibility by the Budget centre managers to maintain the inventory of the assets in their area.</p> <p>The Asset Custodians still hold the primary responsibility for the asset, including to inform the budget centre managers of costs incurred on any asset whether it is through construction, addition, disposal, decommissioning, transfer, renewal, upgrade or an action which changes its value as held in the Council's books.</p>
Finance Manager	Corporate Services	Responsible for ensuring that all Council's assets are accounted for in accordance with applicable Australian Accounting Standards and other relevant legislation.

## 5.2 Recognition

### 5.2.1 Criteria

Council will recognise a non-current asset if the following is satisfied:

- 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;
- c) The item has physical substance;
- d) The item is not held for sale and is expected to be used by the entity for more than 12 months;
- e) Council has control over the asset
- f) 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.

Where an asset is constructed the cost will be capitalised in the year the asset is financially complete, or at comprehensive revaluation whichever occurs first

#### 5.2.2 Cost

The cost of a non-current asset comprises:

- a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates plus costs incidental to the acquisition, including architects' fees and engineering design fees and all other planning costs incurred
- b) Any 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. These include:
  - i. Costs of employee benefits (as defined in AASB119 Employee Benefits) arising directly from the construction or acquisition of the asset
  - ii. Costs of site preparation
  - iii. Initial delivery and handling costs
  - iv. Installation and assembly costs
  - v. 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); and
  - vi. Professional fees
- 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 incurs 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 inventories during that period.

Purchase costs that are to be excluded from the cost of the non-current asset are:



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

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.

Notwithstanding, where an asset is acquired at no cost, or for a nominal cost, such as developer and other contributed assets, the cost is its fair value as at date of acquisition. Where an asset is contributed/donated by a developer it is recognised when the Council assumes responsibility for the asset.

#### 5.2.3 Network assets

A network is a grouping of multiple assets that individually fall below the capitalisation threshold but as a whole is material in value. These assets perform a whole service and require recognition in the financial statements

#### 5.2.4 Network assets

The acquisition of minor assets under the recognition thresholds is treated as an expense and is recorded in an Attractive Items Register. All departments within the Council are responsible for maintaining their own Attractive Items Register which is subject to periodic internal and external audit.

#### 5.2.5 Intangible assets

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

#### 5.2.6 Materiality

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

- a) An amount equal to or greater than 10% of the appropriate base may be presumed to be material;
- b) An amount equal to or less than 5% may be presumed to be not material; and
- c) An amount between 5% and 10% requires judgement.

The asset recognition thresholds that apply to each asset class are detailed in Appendix 1.



### 5.3 Valuation

All Council assets that qualify for recognition are to be initially measured at cost. However, where an asset is acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. Fair value is deemed to be either:

- a) Market Value if there is market evidence, or
- b) Depreciated Current replacement cost if there is no market evidence

Where an asset was acquired in prior financial years and has yet to be recorded in Councils financial asset register, the asset is to be brought to account at the fair value as at the date of recognition.

The valuation method applicable to each Asset Class is detailed in Appendix 1

### 5.4 Renewal/Upgrade/Improvement

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 their inputs for each asset classes.

#### 5.4.1 Treatments

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.

A similar accounting process will be carried out for the above three capital treatments to the assets. During capitalisation process the relevant asset will be added with the actual capital sent and the condition will be improved based on the in-house engineer's condition assessment.

#### 5.4.2 Capitalisation

Capital expenditure on existing assets can be capitalised when the following criteria is met:



- a) The amount exceeds the asset recognition threshold; and
- b) ONE of the following applies:
  - i. The resulting asset provides a higher level of service (increase of service capacity or service quality), an upgrade; or
  - ii. The expenditure results in an overall cost saving; or
  - iii. The expenditure extends the life of the resulting asset beyond the original expectation, a renewal.

Expenditure that does not meet the above classification is treated as an expense in the financial statements

## 5.5 Revaluation

All non-current assets subject to a revaluation process in accordance with AASB116 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. With the exception of assets that remain valued at cost, a full revaluation is undertaken every three to five years.

Assets will be valued where applicable taking into account economic obsolescence, surplus capacity and asset optimisation.

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

If the carrying amount of a class of assets decreased as a result of revaluation, the net revaluation decrease shall be recognised in profit or loss

## 5.6 Depreciation

The straight-line method is adopted by Council to reflect patterns of consumption for all noncurrent assets, other than parcels of land, which are not subject to depreciation or amortisation.

Depreciation and amortisation parameters (remaining life, asset condition, residual value), are to be reviewed at least annually to ensure currency for end of financial year reporting.

## 5.7 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 decrease in accordance to AASB 136 Impairment of Assets to the extent it reverses any previous revaluation increment.

Council is obligated to assess at each reporting date whether any assets are impaired. The indicators of impairment include:

- a) Economic performance.
- b) Obsolescence by design.
- c) Significant changes to its primary use.

All assets are to be reviewed annually for impairment

### **5.8 Work in progress**

Capital work-in-progress is to be disclosed as a separate category for financial reporting purposes, at accumulated cost.

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.

### **5.9 Disposal**

Valuable Non-Current Assets may be disposed as per Council's Disposal Policy.

When Council resolves to sell a non-current asset and the disposal is likely to occur within 12 months, the asset is to be classified as 'Held for Sale' in the Current Assets. The valuation of such assets will be the lower of carrying value in the asset register as at the date of resolution or fair value less costs to sell if the carrying amount will be recovered principally through sale transactions. Assets held for sale are to be reviewed each end of financial year. If the sale is no longer occurring within 12 months then the asset is to be reclassified back to non-current assets.

Assets are to be removed from Council asset registers on disposal, trade-in, retirement, decommissioning, abandonment, confirmation of any theft or loss or when it is withdrawn from use and no further economic benefits are expected from the asset.

### **5.10 Disclosures**

Council shall disclose the following on non-current assets within the financial statements:



- a) Measurement basis used for determining gross carrying amount;
- b) Capitalisation thresholds for asset recognition;
- c) Depreciation/amortisation methods used;
- d) Useful lives or the depreciation/amortisation rates used;
- e) For each asset class, the gross carrying amount and the accumulated depreciation/amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- f) For each asset class a reconciliation of the carrying amount at the beginning and end of the period showing:
  - i. additions
  - ii. transfers between asset classes
  - iii. assets classified as held for sale
  - iv. disposals
  - v. increases or decreases from revaluations
  - vi. impairment losses recognised
  - vii. depreciation

Details of any revaluations including the valuer's name, type of revaluation (full revaluation or interim revaluation), date of effect and the financial impact (both for gross value and accumulated depreciation).

Disclosures within the financial statements in regards to fair value are outlined at Appendix 2.

### **5.11 Review**

This policy will be reviewed when any of the following occur:

- a) As required by legislation.
- b) The related documents are amended or replaced.
- c) As determined from time to time by a resolution of Council

## **6. RELATED LEGISLATION, POLICIES AND STRATEGIES**

### **6.1 Legislation**

- Local Government Act 1993 (NSW)
- Local Government (General) Regulation 2005 (NSW)
- OLG Code of Accounting Practice and Financial Reporting circulars

### **6.2 Australian Accounting Standards**

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations



- AASB 13 Fair Value Measurement
- AASB 101 Presentation of Financial Statements
- AASB 108 Accounting Policies, Change in Accounting Estimates and Errors
- AASB 116 Property, Plant and Equipment
- AASB 16 Leases
- AASB 123 Borrowing Costs
- AASB 136 Impairment of Assets
- AASB 137 Provisions, Contingent Liabilities and Contingent Assets
- AASB 138 Intangible Assets
- AASB 140 Investment Property
- AASB 1041 Revaluation of Non-Current Assets
- AASB 1031 Materiality
- AASB 1051 Land Under Roads
- AASB 1049 Whole of Government and General Government Sector Reporting
- SAC4 Statement of Accounting Concepts – Controlled Assets

### **6.3 Industry guidelines**

- IPWEA's Australian Infrastructure Financial Management Guidelines
- CPA Guide to Valuation and Depreciation for Public and Not-for-profit sectors under AASB Accounting Standards
- NSW Treasury TPP 14-01 Accounting Policy: Valuation of Physical Non-Current Assets at Fair Value

### **6.4 Industry guidelines**

- Disposal Policy
- Asset Management Policy
- Capital Works on Community Facilities Policy
- Contributory Footpath and Kerb and Gutter Schemes
- Legislative Compliance Policy
- Procurement and Disposal Policy
- Risk Management Policy & Framework
- Tender Policy
- Accounting Policy
- Berrigan Shire Council Asset Management Plans
- All Other Integrated Planning and Reporting documentation



## APPENDIX 1- ASSET RECOGNITION THRESHOLDS

Asset Class	Asset Category	Examples	Asset Recognition Threshold	Useful life (Years)	Measurement Model	Valuation Approach
Capital Works in Progress			All	N/A	At Cost	N/A
Plant and Equipment	Plant & Equipment	Major plant (graders, loaders, etc.), fleet vehicles (cars, utes, etc.) and minor plant (chainsaws, mowers etc.)	>\$2,000	5-15	Historical Cost	Cost approach – depreciated historical cost
	Office Equipment	IT Hardware, printing devices, Telephone equipment, network devices, electronic equipment	>\$2,000	4-10	Historical Cost	Cost approach – depreciated historical cost
	Furniture & Fittings	Indoor furniture	>\$2,000	10-20	Historical Cost	Cost approach – depreciated historical cost
Land*	Operational	Land under Council offices, depots, libraries, water and sewer treatment plants etc.	All	N/A	Fair Value	Market Value
	Community	Land under parks, recreation reserves, public halls etc.	All	N/A	Fair Value	Market Value
Land Under Roads – acquired since 01/07/2008			All	N/A	Fair Value	Cost approach – depreciated historical cost
<p>*Minor land parcels (less than 100m<sup>2</sup> or less than 3m in width) have no market value and possess limited or negligible service potential. Due to materiality these minor land parcels are recorded in Council's financial asset register at nominal value.</p>						



Asset Class	Asset Category	Examples	Asset Recognition Threshold	Useful life (Years)	Measurement Model	Valuation Approach
Land Improvements - depreciation	Activity Area	Car parks, netball and tennis courts, fences etc.	>\$5,000	80	Historical Cost	N/A
<b>Infrastructure:</b>						
Buildings	Non Specialised / Specialised	Replacement of whole components such as roof, wall, door, floor coverings, bathrooms, kitchens, security systems, electrical systems, air conditioners and elevators	>\$10,000	20-100	Fair Value	Market Value and Historical cost
Transport	Roads including Kerb & Channels, Carparks, Runways & Taxiways	Formation, pavement, surface, kerb & gutter, crash barrier, road island	>\$10,000	20-60	Fair Value	Cost approach and Current Replacement cost
	Bridges & Culverts	Deck, abutment, substructure	>\$10,000	50-100	Fair Value	Current Replacement cost
	Footpaths	Pathway, cycleway, footbridge	>\$10,000	40	Fair Value	Current Replacement cost
	Bulk Earthworks (non-depreciable)	Formations / Levee banks	>\$10,000	20	Fair Value	Historical cost / current replacement cost



Asset Class	Asset Category	Examples	Asset Recognition Threshold	Useful life (Years)	Measurement Model	Valuation Approach
Stormwater Drainage	Stormwater Drainage	Culverts, channels, detention basins, headwalls, pipes, pits, flood warning system	>\$10,000	80-100	Fair Value	Current Replacement cost
Water Infrastructure	Pump stations	Mechanical and electrical components, civil structures	>\$10,000	60-90	Fair Value	Current replacement Cost Unit Rate / Condition based
	Water mains	Pipework	>\$10,000	70-80	Fair Value	Current replacement Cost
	Water Ancillary	Telemetry, monitoring	>\$10,000	15-20	Fair Value	Current replacement Cost
	Treatment plant	Mechanical and electrical components, civil structures	>\$10,000	10-100	Fair Value	Current replacement Cost
	Water Reservoir	Mechanical and electrical components, pipework, roofs, structures	>\$10,000	80-100	Fair Value	Current replacement Cost
	Sewer/Effluent Pump stations	Mechanical and electrical components, civil structures	>\$10,000	50-70	Fair Value	Current replacement Cost
Sewer Infrastructure	Sewer/Effluent mains	Pipework	>\$10,000	30-50	Fair Value	Current replacement Cost
	Sewer Ancillary	Monitoring, telemetry	>\$10,000	10-100	Fair Value	Current replacement Cost



Asset Class	Asset Category	Examples	Asset Recognition Threshold	Useful life (Years)	Measurement Model	Valuation Approach
	Sewer/ Effluent	Treatment Plant Mechanical and electrical components, civil structures	>\$10,000	10-100	Fair Value	Current replacement Cost
Swimming Pools		Pool shell, tiling	>\$5,000	50	Fair Value	Current replacement Cost
Other Open Space / recreational		Playground equipment, boating facility, fences, gates, outdoor furniture, lighting, barbeques, bike racks, stairs, shelters	>\$5,000	20	Fair Value	Current replacement Cost
<b>Other Assets:</b>						
Heritage		Mosaics, tapestries other heritage items	All	50-100	Historical Cost	Cost Approach
Library books		Book collection	All	50	Historical Cost	Cost Approach
Intangible	Software	Includes both internally generated and externally supplied.	>\$5,000	3-15	Historical cost	N/A
Other		Artwork, artefacts, flagpoles	>\$2,000	5-100	Historical Cost	N/A
<b>Reinstatement, rehabilitation and restoration assets</b>						
Tip assets			All	25-80	Historical cost	N/A
Quarry assets			All	25-80	Historical cost	N/A



## APPENDIX 2- FAIR VALUE FINANCIAL STATEMENT DISCLOSURES

Level of Input			Disclosure dependent upon Level of Valuation Input
1	2	3	
✓	✓	✓	The amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and Council's policy for determining when transfers between levels are deemed to have occurred. Transfers into each level shall be disclosed and discussed separately from transfers out of each level.
	✓	✓	A description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (e.g. changing from a market approach to an income approach or the use of an additional valuation technique), Council shall disclose that change and the reason(s) for making it.
		✓	The effect of the measurements on profit or loss or other comprehensive income for the period.
		✓	A reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following: <ul style="list-style-type: none"> <li>(i) total gains or losses for the period recognised in profit or loss (at line item level)</li> <li>(ii) total gains or losses for the period recognised in other comprehensive income (at line item level)</li> <li>(iii) purchases, sales, issues and settlements</li> <li>(iv) the amounts of any transfers into or out of Level 3, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred. Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.</li> </ul>
		✓	A description of the valuation processes used by Council.
		✓	If the highest and best use of an asset differs from its current use, disclose that fact and why the asset is being used in a manner that differs from its highest and best use.
		✓	If the highest and best use of an asset differs from its current use, disclose that fact and why the asset is being used in a manner that differs from its highest and best use.