NON-CURRENT ASSETS STATEMENT OF ACCOUNTING POLICY 2020/2021

Title: Non-Current Assets Statement of Accounting Policy

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Responsible Officer: Director Community and Corporate Services

Department: Finance

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5	Ordinary Meeting (ref. OM-079/15)	27 May 2015	Adopted by Resolution
6	Ordinary Meeting (ref. OM-069/16)	25 May 2016	Adopted by Resolution
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9	Ordinary Meeting (ref. OM-103/19)	22 May 2019	Adopted by Resolution
10	CEO Approval	27 May 2020	Review May 2021

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1.0 INTRODUCTION

Background

Goondiwindi Regional Council (Council) has developed a consistent Non-Current Assets Statement of Accounting Policy.

Scope

The Non-Current Assets Statement of Accounting policy deals with two types of non- current assets, physical and non-physical (intangible) assets. This policy document does **not** deal with financial assets, receivables, tax assets or inventories.

Purpose

The accounting policy statements are intended to focus on the issue of accounting for physical/intangible non-current assets in general (i.e. infrastructure & non-infrastructure assets). The policy provides a framework for identifying, recognising, valuing, transferring, retiring, decommissioning and writing-off non-current physical or intangible assets.

Prescribed requirements/frameworks

The policy has been prepared in accordance with the various legislative and standard requirements outlined in the applicable *Australian Accounting Standards*, the *Local Government Act 2009*, and the *Local Government Regulation 2012*. Various policy and procedural statements dealing with specific non-current asset accounting issues developed in cooperation with the various asset custodians throughout Council will support these statements.

Application

This policy applies to all departments within the Council.

Definition & Recognition of Physical Non-Current Assets

Physical non–current assets are tangible items:

(i) **Controlled** by Council, having a useful life of at least one year through which;
(ii) Council derives **future economic benefits;** and
(iii) Have been acquired because of a **past transaction or other past event**.

Control relates to the capacity of the entity to benefit from the asset in the pursuit of its objectives and to deny or regulate the access of others to that benefit.

Assets should be recognised as soon as they meet these three criteria. Where part of a capital works project does not meet this criterion, Council will capitalise the portion of the project that does meet this criterion provided that asset has a cost or value that can be reliably measured.

Physical non–current assets having the characteristics described in the above definition will only be identified and recognised in the Statement of Financial Position when:

- it is probable that the future economic benefits embodied in the asset will eventuate; and
- the asset possesses a cost or other value that can be reliably measured.

In circumstances where reliable measurement of physical non–current assets cannot be established, a note to the Financial Statements will record details of these assets where the relevant information is considered useful to the users of the financial statements.

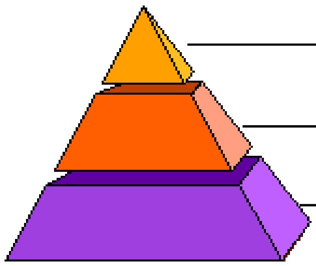
Definition of an Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

2.0 PHYSICAL/ INTANGIBLE NON–CURRENT ASSET FINANCIAL REPORTING HIERARCHY

Physical/Intangible non–current assets which satisfy the definition and recognition criteria outlined in Section 1.0 of this policy will be aggregated in accordance with the physical non–current asset hierarchy (Table 1) for purposes of internal budgeting and external financial reporting. The terminology used in the diagram below is consistent with that used within the Civica Practical+ Computer System Non-Current Asset Registers presently used by Council.

<u>Table 1 – Physical/Intangible Non–Current Asset Financial Reporting Hierarchy</u>



Class	e.g. Plant & Equipment
⇧	⇧
Category	e.g. Passenger Vehicles
⇧	⇧
Individual Assets	e.g. Ford Fairmont 431-AQW

The <u>class</u> level will be used for purposes of disclosure of non–current asset information within the notes to the Financial Statements. It represents the major non–current asset groupings within Council.

The <u>category</u> level will represent a set of individual assets providing the same utility, which have either an identical or a similar useful life.

The <u>individual non–current asset level</u> is the lowest level of asset recognition for purposes of budgeting and external financial reporting. Each individual non–current asset will be registered in the Financial Asset Register and be accounted for in accordance with applicable Australian Accounting Standards and the requirements of this policy.

Due to the complexity of some non–current assets, it may be difficult to determine exactly what constitutes an asset for financial purposes. As a guide in these circumstances, a non–current asset will be identified and recorded at the point where it has the capacity to stand alone in providing future economic benefits to Council, or alternatively where some identifiable level of functionality is derived from the asset.

It is recognised that further detailed records may be required to be maintained for purposes of effective operational asset management. It is the responsibility of the relevant asset custodian/s to ensure that these records are accurately and reliably maintained for their intended use.

Where these records are used in the calculation of non–current asset valuations or as supporting documentary evidence of the existence of individual assets, they will be subject to regular audits by the Finance Manager and the External Auditor or their delegates as required. These records must therefore be reconciled to the Fixed Asset Register on a regular basis to ensure the accuracy of the data.

3.0 CAPITAL versus OPERATIONAL EXPENDITURE

On initial recognition of an asset, or where subsequent costs are incurred, a decision must be made as to whether those costs are capitalised into the value of the asset or expensed through the Statement of Comprehensive Income. The following guidelines will be applied in the determination of 'Capital v Operational Expenditure' unless stated otherwise within specific non–current asset policies or procedures:

Initial Purchases – Costs capitalised

The cost of an item of plant and equipment will comprise:

- its purchase price;
- 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; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Demolition and Restoration Costs

The cost of an item of property, plant and equipment must include the estimated cost of dismantling and removing the asset and restoring the site on which it is located, where there is either a legal or constructive obligation on Council to restore or rectify the site to its original condition prior to construction. The estimated restoration cost should be recognised as a provision under *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*.

Subsequent Costs

In relation to costs incurred subsequent to the initial purchase, expenditure on assets must be capitalised when it improves the condition of the asset beyond its originally assessed standard of performance or capacity. This can occur through:

- an increase in the annual service potential provided by the asset; or
- increasing the useful life of the asset.

The Purchase/Construction of a Physical/Intangible Non–Current Asset

Council will recognise physical non–current assets in circumstances where:

- ♦ the definition and recognition criteria outlined in Section 1.0 of this policy have been satisfied;
- ♦ the asset has a cost exceeding the applicable recognition thresholds outlined in Section 4.0 for its particular category; and
- ♦ the asset can be seen as performing a separate function or service.

Significant Enhancement of Existing Non–Current Assets

Council will recognise enhancements to physical non–current assets in circumstances where such enhancements are considered significant, and will capitalise the costs of such enhancements in the Statement of Financial Position.

The determination of whether an enhancement is significant in nature will require professional judgement. The factors to be considered in exercising this judgement will include the effect on the useful life, current and residual values, and the asset's service potential. Where the service potential and/or the useful life of an asset is materially increased as a direct result of a significant enhancement, the associated costs of the enhancement will be capitalised.

Enhancements that do not increase the service potential and/or useful life of the asset are to be expensed as a capital expense in the Statement of Comprehensive Income in the current year (i.e., minor enhancements).

Significant Refurbishment of Existing Non–Current Assets

Council will recognise the refurbishment of physical non–current assets where such refurbishment is considered to be of a significant nature, and will capitalise the costs of such refurbishment in the Statement of Financial Position.

The determination of whether a refurbishment is significant in nature will require professional judgement. The factors to be considered in exercising this judgement will include the effect on the useful life, current and residual values, and the asset's service potential. Where the service potential and/or the useful life of an asset is increased as a direct result of a significant refurbishment, the associated costs of the refurbishment will be capitalised.

Refurbishments that do not increase the service potential and/or useful life of the asset are to be expensed in the Statement of Comprehensive Income in the current year (i.e., minor refurbishments).

Replacement of Component Parts of Existing Non–Current Assets

The replacement of component parts of existing non-current assets will generally be treated as maintenance unless the service potential and/or useful life of the asset is increased as a direct result of the replacement of the component parts.

Where the service potential and/or the useful life of an asset is increased as a direct result of the replacement of component parts, the associated costs of the replacement will be capitalised.

Where the replacement of a component part constitutes a repair, that expenditure is to be expensed in the Statement of Comprehensive Income in the current year.

Minor Repairs and Maintenance of Existing Assets

Any minor repairs or maintenance to non–current assets will be considered to be of a recurrent nature, and will be expensed in the Statement of Comprehensive Income in the year incurred.

Such expenditure does not increase the life of the asset, but it allows the asset to operate or carry on in its normal capacity, in an efficient manner, throughout its useful life.

This provision is to be considered in conjunction with Council's policy regarding the significant refurbishment or the replacement of component parts of existing assets.

Major Inspection Costs

AASB116 s.14 Property, Plant and Equipment notes that a condition of continuing to operate an item of property, plant and equipment may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed and that inspection is a condition of operating that asset (i.e. regulatory requirement such as Water Act compliance or Workplace, Health & Safety), its' cost is recognised in the carrying amount of the asset if the recognition criteria are satisfied.

When an asset has incurred inspection costs and subsequently incurs further inspection costs in the same year the original inspection costs are written off.

Enhancement and Refurbishment Costs to Leased Buildings

All costs, except removal costs incurred to enhance or refurbish a leased building should be capitalised and depreciated over the shorter of the asset's useful life or the life of the lease.

Intangible Assets

Council should identify its intangible assets and record them separately as Intangibles under Non-Current Assets. An intangible asset, as per *AASB 138* – Intangibles, is an identifiable non-monetary asset without physical substance. An intangible asset is capable of being separated or divided from the entity and sold, transferred, licenced, rented or exchanged, either individually or together with a related contract, asset or liability. Common examples of intangibles for Council are water licences.

Costs incurred during the Research Phase of a project for Intangible Assets

Expenditure on research shall be recognised as an **expense** when it is incurred. No intangible asset arising from research shall be recognised in the Statement of Financial Position. Examples of research activities are:

- Activities aimed at obtaining new knowledge;
- The search for, evaluation and final selection of, applications of research findings or other knowledge;
- The search for alternatives for materials, devices, products, processes, systems or services; and
- The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Costs incurred from the Development Phase of a project for Intangible Assets

An intangible asset arising from the development phase of a project shall be recognised as an asset if and only if Council can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete the intangible asset and use or sell it
- Its ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Costs of an Internally Generated Intangible Asset

Internally generated intangible assets are prohibited from being recognised as an asset (i.e. trademarks, patents, etc.). This comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by Council. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

Costs incurred with the Research, Design and Appraisal of Capital Projects for Tangible Assets

Council considers the costs associated with the initial research, design and appraisal of a capital project, in the absence of any formal Council decision to proceed with such project and/or low probability that the project will proceed, to be of a recurrent nature, and will report such expenditures in the Statement of Comprehensive Income in the year incurred.

Upon making a formal decision to proceed with capital projects or where there is a high probability that the project will proceed, any research, design and appraisal costs incurred in implementing the project will be considered to be of a capital nature, and may be eligible for capitalisation in the Statement of Financial Position.

Where the research, design and appraisal costs are necessarily incurred to bring the future tangible asset into existence for its intended purpose and the probability that the project will be completed is high, then those costs can be capitalised.

Where the costs associated with research, design and appraisal have been capitalised in a prior accounting period and those costs do not contain a sufficient nexus with the asset created, then those costs should be expensed to the extent that a relationship with the created asset does not exist. If it was reasonable to have known at a prior balance date that no relationship with the created asset and costs would exist upon completion, then the expense needs to be treated as an error. Errors are accounted for retrospectively as if the error had never occurred. If the gap in the relationship between costs and the created asset has only been identified due to new information that did not exist at a prior balance date, then the adjustment must be treated as a change in accounting estimate. Changes in accounting estimate are accounted for prospectively, in the period they are identified.

Where the costs associated with research, design and appraisal have been incorrectly expensed in a prior accounting period, the value of such costs will be capitalised. If it was reasonable to have known at a prior balance date that a relationship with the created asset and costs would exist upon completion, then the reversal of the expense needs to be treated as an error. Errors are accounted for retrospectively as if the error had never occurred. If the relationship between costs and the created asset has only been identified due to new information that did not exist at a prior balance date, then the adjustment must be treated as a change in accounting estimate. Changes in accounting estimate are accounted for prospectively, in the period they are identified.

Unexpected Expenditure after the Asset is Capitalised

“Unexpected Expenditure” Definition:

An undocumented and unplanned expense that has been accepted by Council that can be attributed to an already capitalised capital works project.

Treatment of Unexpected Expenditure (Late Costs)

Where the unexpected expenditure can be attributed to one asset the unexpected expenditure can be capitalised to the corresponding asset if the expenditure is equal to or greater than $2,500. An unexpected expenditure that is less than $2,500 must be treated as an expense.

Where the unexpected expenditure is greater than $2,500 and can be attributed to more than one asset (e.g. a complex asset), please seek advice on the treatment from the Finance Manager.

LIBRARY STOCK

Council will expense all common use library stock because of their materiality, low value and initial high use. Only Heritage (unique) library collections where the economic benefits are not expected to diminish over time or with use will be measured at cost and not depreciated.

4.0 NON–CURRENT ASSET RECOGNITION THRESHOLD

Non-Infrastructure Assets

Physical non-current, non-infrastructure assets need to be expensed as a capital expense in the Statement of Comprehensive Income in the current year when the amount is below the thresholds as set out in Table 2, and capitalised when equal to or above the thresholds:

Non-Infrastructure Asset Category	Threshold ($)
Buildings & Structures	$ 25,000
Plant and Equipment	$ 10,000
Land	$ 1,000*

***Table 2**: Non-Infrastructure Asset categories and their thresholds*

* Minor land parcels having no market realisable value and possess limited or negligible service potential. Due to materiality, these minor land parcels are not recorded in Council's financial asset register.

Infrastructure Assets

All Physical non-current infrastructure assets having a value **less than $10,000** need to be expensed as a capital expense in the Statement of Comprehensive Income in the current year.

All physical non-current infrastructure assets having a value equal to or greater than $10,000 will be capitalised and recorded in the Fixed Asset Register.

The above asset recognition thresholds do not preclude any item, component, sub–component or sub–assembly from being registered in the Asset Management Register used specifically to facilitate the asset's management and/or security.

Intangibles

All Physical non-current intangible assets having a value **less than $50,000** need to be expensed as a capital expense in the Statement of Comprehensive Income in the current year.

All physical non-current intangible assets having a value equal to or greater than $50,000 will be capitalised and recorded in the Fixed Asset Register.

The above asset recognition thresholds do not preclude any item, component, sub-component or sub–assembly from being registered in the Asset Management Register used specifically to facilitate the asset's management and/or security.

5.0 NETWORK ASSETS

<u>Network assets</u> are defined as a group of separately identifiable assets which, when considered collectively, are operating together in achieving the objectives involved in the provision of a particular service.

When accounting for a network asset, the total acquisition cost for all items comprising the network will be recorded as the asset value. Particular emphasis will be placed on ensuring that all acquisitions made during each accounting period have been identified and included in the network asset value.

Where particular item/s within a network asset are disposed of and there are adequate records supporting the item/s acquisition, written down and disposal values, a disposal entry for the item/s in question is to be processed against the network asset

A supporting management register for a particular network asset may be kept in circumstances where it is deemed appropriate for purposes of asset security, internal control and asset management (i.e. Spreadsheets).

The accounting treatment for costs incurred in maintaining and repairing networked assets will be determined in accordance with the guidelines set out under Section 2.0 of this policy entitled 'Capital v Operational Expenditure'.

6.0 PORTABLE AND/OR ATTRACTIVE ITEMS

Certain non-current assets are, by their nature and value, particularly susceptible to theft or loss. These non-current assets are referred to as 'Portable and/or Attractive assets'.

Portable and/or Attractive assets are those items that, due to their nature and value, have the following characteristics:

- are in particular subject to the risk of loss or theft; AND
- have a value less than $10,000; AND
- are readily moveable/detachable; OR
- are readily disposed of.

Based on the above characteristics and without restricting the application of this section, Council has determined that the following items will be classified as Portable and/or Attractive assets:

- Minor Equipment;
- Programmable and electric calculators;
- Computers, monitors, laptops and printers
- Furniture and fittings;
- Cameras, video and audio equipment;
- Power tools/trade equipment;
- Floating plant/loose tools; AND
- Miscellaneous portable and/or attractive items not included above (this list is not exhaustive).

To facilitate effective internal control over these assets, a supporting management register may be kept in circumstances where it is deemed appropriate for purposes of asset security, internal control and asset management (i.e. spreadsheets). Where possible, each item within the registers will be assigned to an individual employee, Branch or Director, due to their ability to directly exercise control over the item, will be responsible for the safe custody of the asset.

7.0 ACQUISITION OF PHYSICAL NON–CURRENT ASSETS

Measurement at Recognition

All physical non–current assets acquired will be brought to account at their cost of acquisition where this cost is considered indicative of their current value. Cost of acquisition is defined as the fair value of the non–current asset plus costs incidental to acquisition and removal or restoration costs upon completion of the asset's useful life. Where physical non–current assets have been constructed, the cost of acquisition will be the cost of construction as charged by the provider unit. The provider unit will determine its charge based on the cost of all materials used, direct labour and an appropriate proportion of variable and fixed overheads. **No profit component is to be charged**. Profits/losses should not be recognised irrespective of whether it is individually material because materiality also applies cumulatively. The value recognised should be at cost only. Section 9.0 of this policy deals with non-current assets acquired without consideration or at a value not indicative of its current value.

8.0 PHYSICAL NON–CURRENT ASSETS ACQUIRED VIA FINANCING LEASE ARRANGEMENTS

Where Council acquires a physical non-current asset via a lease arrangement having the characteristics outlined in the *AASB 16*, Council will recognise both a non-current asset and a liability in accordance with that standard. For further clarification refer to *AASB 16*.

The non–current asset will be amortised over the useful life of the asset where ownership is expected to pass to Council at the end of the lease term. Where ownership is not expected to pass to Council, the non-current asset will be amortised over the term of the lease.

Assets acquired under a finance lease are subject to the same revaluation requirements as assets that are owned or otherwise controlled by the Council.

Assets subject to operating leases are not controlled by the Council and should not be recognised as assets; however, they can be recorded without any financial data for stocktake and safeguarding, etc.

9.0 PHYSICAL NON–CURRENT ASSETS ACQUIRED WITHOUT CONSIDERATION

Assets acquired without consideration include grants, donations, and developers contributions in the form of physical non–current assets or cash. This section of the policy only applies to those physical non–current assets acquired without consideration or at an amount not representative of their current value (excluding not previously recognised assets).

Council will recognise all contributions of physical non–current assets at Fair Value, as revenues and will report them in the Statement of Comprehensive Income and Statement of Financial Position in the period that Council obtains control over the assets comprising the contributions.

Council will record all non–current assets so acquired, whether they are acquired with or without consideration, at their fair value. Where assets are acquired at a cost not representative of their fair value, those assets will be recorded at their fair value.

Recognition of Developers Contributions for Non-Current Assets is subject to additional conditions dependent upon the identification process.

Developers Contributions – Recognition of Non-Current Assets created or modified as part of a development project is when transfer of control has occurred. Transfer of control is deemed to have occurred when:-

a) where the construction of contributed assets has been completed prior to the lodgement of a plan of survey, the date of registration of a plan of survey by the Department of Natural Resources and Mines;
b) where the construction of contributed assets has not been commenced or completed prior to the lodgement of a plan of survey, the date of the first day of the 'on maintenance period;
c) in cases where no plan of survey is involved, the date of the first day in the 'on maintenance' period;

Not Previously Recognised Assets

This occurs when assets have not previously been brought to account. Council will recognise and bring to account all previously unrecognised non–current assets. The accounting treatment to bring into the books not previously recognised assets for both infrastructure and non-infrastructure assets will be as follows:

1. Dr Asset
   Cr Revenue

Land Under Roads

In accordance with the *AASB 1051, Land under Roads* will ***not*** be valued or recorded in the Statement of Financial Position.

Land Held Under a Deed of Grant in Trust (DOGIT)

The Department of Natural Resources controls certain parcels of land that are owned by the Crown but granted to other entities in terms of a deed pursuant to section 35 of the Land Act 1994. This land is referred to as Deed of Grant in Trust (DOGIT). Council can utilise the land for the length of time specified in the deed of grant, but legal title to the land remains with the Crown. Council should recognise the DOGIT land at Fair Value in its financial statements as it has economic benefits of the land. The nature and restrictions of the DOGIT land held by Council should be included in the notes to the financial statements.

10.0 VALUATION OF PHYSICAL NON–CURRENT ASSETS

All physical non–current assets acquired, with a value in excess of the asset recognition threshold, within the current financial year, will be initially recorded at their cost of acquisition. This cost is considered indicative of their fair value at acquisition and for a period of up to 12 months from the date of acquisition. Cost of acquisition includes costs incidental in obtaining and establishing the asset ready for use. Where non–current assets are acquired without consideration, or at a value not indicative of their fair value, Council will record the non–current assets at their fair value determined by reference to the cost of acquiring an equivalent asset, or cost of construction based on the asset's specifications.

All physical non–current assets brought to account in a previous financial period and subsequently revalued in accordance with provisions outlined in Section 11.0 of this policy will be valued at their fair value less depreciation, based on their remaining useful life.

In determining the fair value of a physical non–current asset, consideration will be given to the fair value attributable to the asset**.** **Fair value** is defined in *AASB116* '**as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction**'. Where a market value cann o t be determined, the fair value of the asset shall be the cost to Council of replacing or reproducing an existing asset should Council be deprived of the benefits the asset provides and that asset would otherwise be replaced or reproduced.

The fair value of the non-current assets is to be assessed according to the general principles set out in *AASB 13 Fair Value Measurement*. The Level 1, 2 and 3 Inputs are defined under sections 76 – 90 under *AASB13* and require to be disclosed in the annual financial statements, examples of the level 1, 2 and 3 inputs can be found in Appendix B of *AASB13.*

Where a non–current asset would be replaced or reproduced by Council if deprived of its use, the following valuation methods will be used in determining the current value of a non- current asset, dependent on the circumstances of each case.

a) Current Market Price – the replacement value of an asset of identical or similar technological standard based on the current selling price.
b) Current Replacement Cost – the value of replacing an existing asset with the most appropriate modern equivalent that performs the same or similar function.
c) Current Reproduction Cost – the value of reproducing or replicating an existing asset of equivalent size and technology.

Where the non–current asset would not be replaced, the asset will be valued at the net present value of future cash flows from its highest and best use.

The appropriate current valuation methodology to be used will be selected based on the decision flow chart outlined in Appendix B.

Where non–current asset valuations are calculated by either Council officers or contracted consultants, the following principles will be observed:

- the staff/consultants performing the valuation must be competent and adequately qualified for the purpose;
- before engaging in the calculation of valuations, the rationale, assumptions, methodologies and scope of work will be fully documented and incorporated into a policy or manual;
- staff/consultants performing the valuation must be fully aware that the valuations are required for accounting purposes and must therefore be calculated in accordance with all applicable legislative requirements, including the requirements of this policy, and conform to the basic principles of accuracy, reliability, accountability and security;
- all workings and calculations must be logical, fully supported by documentary evidence, and be retained for subsequent inspection and audit at any future date.

In accordance with the requirements of the *Local Government Act 2009*, certain land will not be valued for the purposes of Council's Financial Statements. Land that will not be valued within the financial asset register is limited to:

a) land that is a reserve under the Land Act (1994) which is controlled by Council;
b) any road controlled by Council (other than any road owned by Council);
c) Land held in trust (excluding DOGITS), road reserves and other reserves are not property of Council;
d) The value of land with an area of less than $100m^2$ is considered not to be material and;
e) Access restriction strips are considered not to have a material value.

The definition of road used above is consistent with the definition contained in the *Land Act (1994).* Refer Section 9.0 of this policy.

11.0 REVALUATION OF NON-CURRENT ASSETS

Revaluation of non-infrastructure assets

Council will value all physical non-current assets except minor Plant & Equipment by using the fair value basis. All Plant & Equipment having a cost of $1million or more will be considered Major Plant & Equipment and will be valued using the fair value basis. All other Plant & Equipment will be valued by using the cost basis.

As per sec. 116.34 of *AASB 116 Property, Plant & Equipment*, the frequency of valuations depends upon the changes in fair values of the items of property, plant & 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 revaluation. Such 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 them every five to seven years.

Council will revalue all its non-infrastructure assets namely Land, Buildings & Structures every seven years instead of an annual formal physical revaluation, providing these assets do not experience a significant and volatile change in fair value. Council will conduct a formal valuation of all non-infrastructure assets, except for Plant & Equipment in Year 1. During Years 2 and 6, Council will apply an index base for all non-infrastructure assets except Plant & Equipment. Indices should take into account not only the effects of specific or general price levels, but also technological change, where possible. Council will need to consider the impact of a revaluation only if the cumulative change in the index is greater than 5% (either positive or negative). As per sec 17 *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*, Council has made the following determination in relation to what is classified as material:

- an amount which is equal to or greater than 5% but less the 10% of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary; or
- an amount, which is equal to, or less than 5% of the appropriate base amount may be presumed not to be material unless there is evidence, or convincing argument, to the contrary.

During the years subsequent to Year 7, the formal valuation cycle will be repeated. All assets will be valued under the ‘Gross’ method.

As part of the revaluation process, Council will reassess the useful lives, and depreciation methods of the non-current asset being revalued. Council will make appropriate adjustments to the accumulated depreciation of that asset in reflection of any resulting change in the asset’s useful life.

Any revaluation to be performed must be supported by appropriate documentary evidence, including an outline of the applied methodology.

Disclosure

The following disclosures should be made in the financial statements in respect of asset revaluations:

- the net amount of asset revaluation increments less decrements for each class of non-current assets;
- the date of the last comprehensive valuation;
- whether that valuation was made internally or by an independent external party;
- the method and significant assumptions underlying the valuation and
- details of basis on which interim revaluations are made.

Revaluation of Infrastructure Assets

All Infrastructure Assets will be valued on a fair value basis via unit rates as supplied by Council's appointed valuers and compared against relevant engineering manuals (i.e. Rawlinson's). There are two distinctive types of infrastructure assets namely:

1. Active Assets
2. Passive Assets.

Active assets are typically complex in nature and include functional units and facilities that contain significant mechanical and/or electrical components. Active infrastructure assets are to be valued in accordance with the fair value requirements of *AASB 116*. It is proposed that active infrastructure assets be revalued when there is a material difference in the fair value. Where such an interval is not practical or appropriate, the revaluation interval shall not exceed 7 years.

Passive assets are simple in structure and typically include pipe systems and road networks. They generally lack any significant mechanical and electrical components.

12.0 NON-CURRENT ASSETS HELD FOR SALE

AASB 5 Non-current Assets Held for Sale and Discontinued Operations applies to all non- current assets and groups of non-current assets (disposal group) that have been withdrawn from use and for which a plan for their sale within the next year has been approved by management. Those non-current assets that are exempt from the requirements of the Standard are detailed in *AASB 5.5* and *5.13*; Non-current assets that are acquired exclusively with a view to resale are not to be classified as current assets until they meet the criteria in *AASB 5* to be so classified.

Disposal groups

A disposal group consists of a group of assets to be disposed of by sale or otherwise, together in a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction. If a non-current asset is part of a disposal group, the measurement requirements of the Standard apply to the group as a whole.

Criteria for Recognition As held For Sale

A non-current asset or disposal group is classified as being held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. Classification as Non-current Assets held for Sale is permitted only when specific criteria are met in accordance with *AASB 5*.

Measurement

A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell (net fair value). Assets held for sale are not to be depreciated/amortised. If the sale of the asset is expected to occur beyond one year, any costs to sell are to be measured at their present value. Any increase in the present value of the costs to sell that arises from the passage of time is shown in the Statement of Comprehensive Income as a financing cost.

Changes to a Plan of Sale

If an asset which has been classified as held for sale no longer meets the recognition criteria, Council must cease to classify the asset as held for sale, and the asset is to be measured at the lower of its:

- carrying amount before the asset was classified as held for sale, adjusted for any depreciation/amortization or revaluations that would have been recognised had the asset not been classified as held for sale; and
- recoverable amount at the date of the subsequent decision not to sell.

Any required adjustments to the carrying amount of the asset are to be treated like a normal revaluation, with the amount shown in the Statement of Comprehensive Income, unless the asset has been revalued, in which case the adjustment is to be treated as a revaluation increase or decrease.

Disclosure

Once assets meet the criteria for classification as held for sale, they are to be shown separately on the face of the Statement of Financial Position as current assets. The liabilities of a disposal group classified as held for sale are to be presented separately from other liabilities in the Statement of Financial Position. These assets and liabilities are not to be offset and presented as a single amount. If the classification of an asset held for sale has changed from previous periods, the Statement of Financial Position is not to be classified or re-presented.

13.0 DEPRECIATION AND AMORTISATION

Non-current assets having a limited useful life must be depreciated in accordance with the requirements of *AASB 116 Property, Plant and Equipment* and *AASB 138 Intangible Assets*. The term ‘depreciation” should be used when referring to non-current assets that have physical substance. The term “amortisation’ is used in relation to intangible assets and finance leases.

AASB 116 defines depreciation as:

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

AASB 138 defines amortisation as:

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Essentially, depreciation is an allocation process, in which the cost of an asset or any other amount substituted for cost; (less any expected residual value) is systematically allocated over its useful life of the asset.

Critical to the exercise of recognising depreciation expense is estimating correctly the depreciable amount of the asset and its useful life.

> ***Example***
>
> If Council purchased an asset with a limited life for $40,000 and the amount expected to be recovered when disposed of by the Council is nil, the depreciable amount is $40,000. If the residual value expected to be recovered at the end of the asset's useful life is $6,000, the depreciable amount would be $34,000 ($40,000-$6,000).

Recognition

Depreciation expense commences from the time the asset is first put into use or held ready for use. Where an asset is a complex structure made up of interdependent sub- structures, which require installation in successive stages, it must be considered as being held ready for use only after installation has been completed to a stage where service or a saleable product can be obtained. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale, or included in a disposal group that is classified as held for sale in accordance with *AASB 5 Non-Current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Depreciation Bases

Council will apply the straight-line method of depreciation to reflect the consumption of the economic benefits embodied in all its non–current assets.

The straight-line method allocates the depreciable amount in approximately equal amounts in each accounting period over the useful life of the asset being depreciated.

> ***Example***
>
> If an asset had a cost of $30,000, a residual value of $2,000 and a useful life of four years, an amount of $7,000 would be recorded each year as depreciation under the straight line method ((30,000-2,000)/4).

Where the straight-line method results in a level of depreciation expense which is not considered indicative of the consumption of the asset's service potential, Council may elect to apply a more appropriate method of depreciation. In these circumstances, Council will select a more appropriate method of depreciation permitted by *AASB 116*. Any variation in depreciation method will be separately disclosed in the notes to the financial statements and treated as a change in accounting estimate in accordance with *AASB108*.

With the exception of network assets and portable and/or attractive assets, all other recorded physical non–current assets having a limited useful life will be depreciated over their useful lives commencing from the date of acquisition or commission.

Network assets will have depreciation calculated in the following manner:

- each acquisition comprising the network will be individually depreciated. Such depreciation expense will commence from the date of acquisition or commission relating to the individual item.
- after having individually depreciated each item within the network, the sum total of all calculated depreciation expenses will be brought to account to reflect the total depreciation expense for the network asset for the accounting period.

All transactions pertaining to portable and/or attractive assets will be expensed in the period in which they are incurred.

Work-in-progress must not be depreciated. Only once an asset is first put into use should depreciation commence.

Assets held under operating leases are not depreciated by lessees.

In accordance with the requirements of *AASB116 Property, Plant & Equipment*, Council will review its depreciation rates, residual values and methods annually, giving consideration to asset usage, the rate of technical and commercial obsolescence, and estimated asset residual values.

14.0 RESIDUAL VALUES OF NON-CURRENT ASSETS

In accordance with *AASB116 Property, Plant & Equipment*, the residual values of all non-current assets, with the exception of Plant & Equipment, will be nil. For Plant & Equipment assets the following table is be utilised to establish the relevant residual value for the various plant types.

Plant & Equipment Type	% of Gross Value
Passenger Vehicle (Car)	27%
Compactor	22%
Grader	31%
Loader	31%
Mower (Ride on type)	28%
Quad Motorbike	31%
Skid Steer Loader	39%
Truck	33%
4WD Utility	38%
Roller	22%
Tractor	32%
2WD Utility	28%
Backhoe	27%

Plant & Equipment items not mentioned above will be treated on an individual case basis, in consultation with the Finance Manager. The above residual percentages will be reviewed on an annual basis to ensure that any market changes are being accounted for.

15.0 ASSESSMENT OF USEFUL LIVES

Subject to statements below, the Finance Manager will maintain the "Asset Hierarchy Listing". This schedule lists different categories of non-current assets controlled by Council and their various useful lives.

The useful life to be applied in calculating depreciation for a non–current asset may differ from this schedule. This situation will occur in circumstances where an alternative useful life is considered more indicative of the service potential embodied in the asset.

All departments within Council will liaise with the Finance Department in determining the useful lives of non–current assets falling within their respective departmental jurisdictions. In determining the useful lives of its assets, Council will give consideration to the estimated time during which Council will obtain economic benefits from the asset.

Estimated useful lives for non–current assets will be reviewed at least annually, and will be adjusted in circumstances where considered appropriate. A re–assessment of an asset's useful life will also take place where significant enhancements, replacements or refurbishments have been carried out or when revaluations are being performed.

16.0 IMPAIRMENT OF ASSETS

All non-current assets must be assessed for impairment in accordance with *AASB 136 Impairment of Assets*. Assets held at either cost or fair value are subject to the requirements of the Standard. The requirement of the Standard applies subject to the provisions contained in *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*. In determining materiality, where assets are tested for impairment and the total change in the written down value for the class of assets or the total impact on depreciation for the class of assets is material, then the impairment loss must be brought to account.

In general, an asset is impaired when its recoverable amount (i.e. the net amount expected to be recovered through cash flows arising from its use and disposal) is less than its carrying amount or WDV. If an asset is impaired, it must be written down and an impairment loss recorded. Impairment assessment is a two-stage process. The first stage requires an annual assessment for impairment indicators. If no impairment indicators exist, then there is no need to proceed to the second stage. Impairment indicators are either internal or external.

Internal impairment indicators include:

- Evidence of obsolescence or physical damage;
- Significant changes that have an adverse effect on the entity:
  - asset becomes idle; and
  - reassessing useful life of an asset as finite rather than indefinite.
- Evidence is available that economic performance of the asset is, or will be, worse than expected.

External impairment indicators include:

Declining market value for the asset (i.e. property);

- Significant changes in technology, market, economic or legal environment in which client operates; and
- Market interest rate or other market returns on investments have increased – discount rates used to calculate "value-in-use" will therefore increase and recoverable amount will decrease.

If impairment indicators exist, then the second stage requires the calculation of recoverable amount of the asset. If the recoverable amount cannot be determined for an individual asset, the recoverable amount is determined for a cash-generating unit. A cash-generating unit is the lowest group of assets that collectively generate a cash flow.

In circumstances where the economic benefits to be derived from a physical non–current asset have either substantially or totally diminished due to loss, theft, damage, etc., the value of that non–current asset will be written–down to its recoverable amount in the period in which such loss, theft, damage, etc. occurs.

Recoverable amount is defined as the higher of an asset's fair value less its costs of disposal or its value in use.

For the fair value option, costs to sell include all direct costs required to sell, but excludes termination benefits and business reorganisation costs.

Where Council has made a formal decision not to replace the impaired asset, the value-in- use would be the present value of net disposal proceeds

Where the value in use option is used, the calculation must include the following:

- Estimate of future cash flows to be derived;
- Expectations about variations in the timing/amount of estimated cash flows;
- Time value of money (i.e. discounting);
    - Price for the inherent uncertainty in the asset; and
    - Other relevant factors such as illiquidity and market participants. The cash flows can't include the following:
        - Benefits from restructures which are not yet committed;
        - Future enhancements of the asset;
        - Tax receipts/payments; and
        - Net cash inflows/outflows from financing activities.

The key assumptions used in the calculation of recoverable amounts must be disclosed in the financial statements.

Any impairment loss of an asset must first be approved by the Custodian responsible for that asset.

Recognition of Impairment Loss

As per *AASB 136.Aus61.1*, in respect for not-for-profit entities, an impairment loss on a revalued asset is recognised directly against any revaluation reserve in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation reserve for that same class of asset.

Impairment loss on a non-revalued asset will be recognised in profit or loss.

After recognising the impairment loss, depreciation (amortisation) charge for the asset must be adjusted over the remaining useful life of the asset.

Annual impairment assessments will be performed in conjunction with the review of the fair values, useful lives, residual values and depreciation methods of assets.

17.0 DISPOSAL OF NON–CURRENT ASSETS

Where assets or materials have become obsolete, redundant, are surplus to requirement, inoperable, of no value/use or are to be replaced, they need to be disposed and the asset needs to be derecognised. The means of disposal of Council assets is further defined in Council's "Procurement Policy – GRC0004".

Gain or Loss on Disposal of Non-Current Assets
Where physical non–current assets have been disposed of during the financial period, the profit/loss on disposal (if any) will be calculated and brought to account in the Statement of Comprehensive Income. Any gain or loss on disposal of assets will be recorded against the respective program.

18.0 INVESTMENT PROPERTY

AASB 140 Investment property applies to non-current assets classified as investment property. Investment Property is defined as:

Property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or for both, rather than for:

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of business

An owner occupied property is not an investment property unless the area occupied is not material in proportion to the remaining space that is leased.

For not-for-profit entities like Council, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations, the property will not meet the definition of investment property and will be accounted for under *AASB 116 Property, Plant and Equipment*. For example:

- Property held for strategic purposes; and
- Property held to provide a social service, including those, which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.

19.0 PHYSICAL NON–CURRENT ASSETS UNDER CONSTRUCTION AND WORK IN PROGRESS (WIP)

Work In Progress is defined as capital projects commenced but not completed as at period end. In circumstances where a capital project involves the construction of a number of separately identifiable non–current assets, each asset will be considered separately in determining whether each individual asset has been completed or remains under construction. It is not the project's completion that is the determining factor, but rather the completion of each individual asset comprising that project.

Where an entity is constructing its own assets, assets that are completed should be promptly transferred from the WIP accounts to the relevant asset class. The final cost should include any cost of goods received but not invoiced or other known outstanding liabilities.

Depreciation should commence from the time the asset is completed and construction costs transferred to the asset register.

WIP general ledger accounts are to be reconciled each month. Monthly management reports are to be prepared for all projects comparing actual expenditure in WIP to the budget as set out in the project plan.

20.0 GREEN ASSETS

“Green assets” include mulch, soft fall, shrubs, trees, street scaping and landscaping. Council should assess whether to capitalise or expense the transactions pertaining to Green Assets. The assessment should include the nature of the transaction and not just the dollar value. For any large developments, where the costs of the green assets will improve the value of the land and it is likely that these costs will be revalued, should be capitalised into the land, and form part of the revaluation process. The determination of whether a cost should be capitalised or expensed needs professional judgement. The Finance Manager needs to be contacted to determine whether a cost should be capitalised or expensed.

21.0 STOCKTAKE

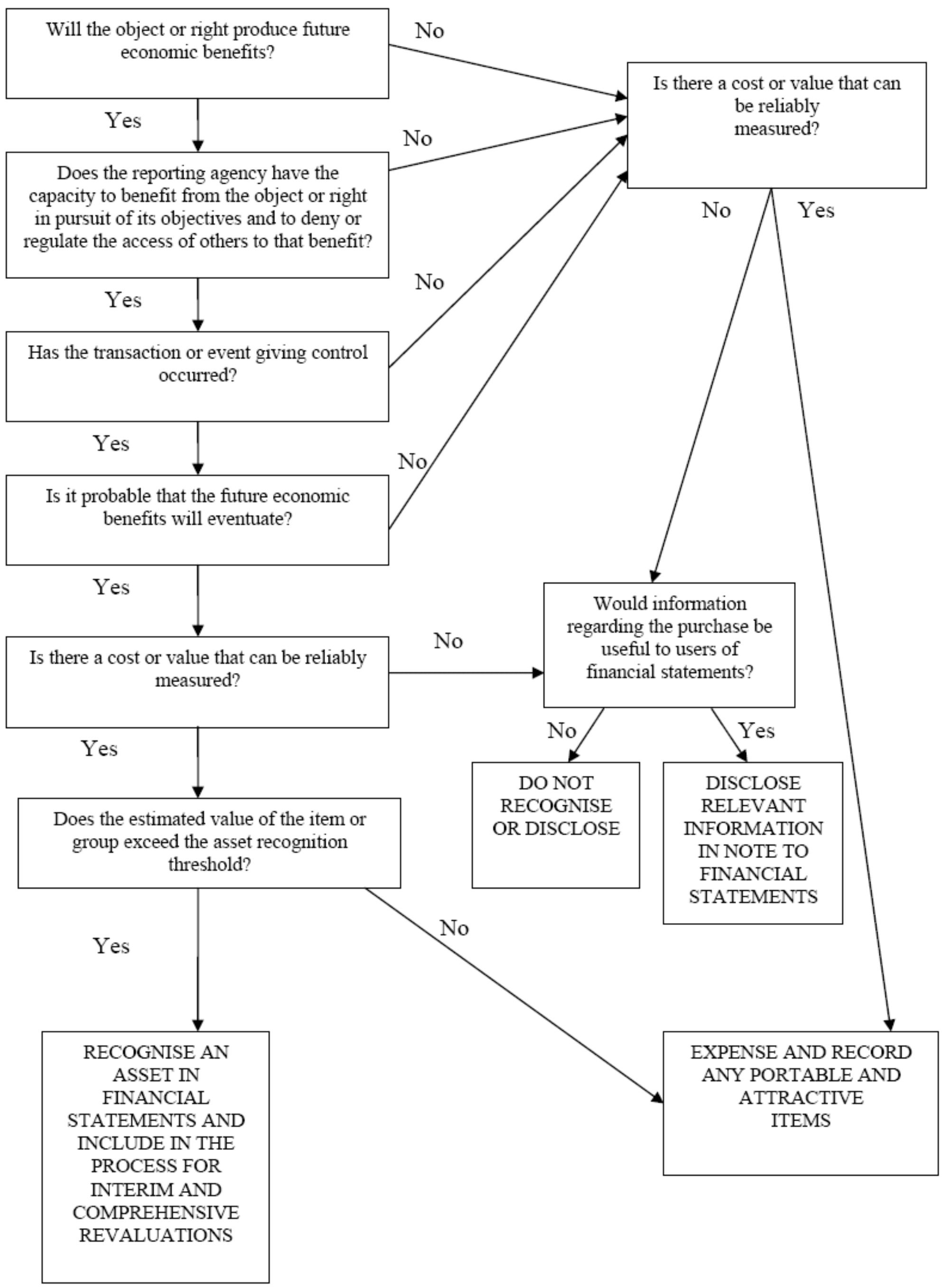
Council will undertake a stocktake of all its non-infrastructure assets as follows:-

- Plant & Equipment and floating plant and loose tools audited on a five (5) yearly basis, and
- Artworks, Portable and/or Attractive assets, Buildings & Structures, Land, on a five (5) yearly basis.

These audits of the above assets need to be carried out together with a review of depreciation rates, methods, and residual values, and impairment of assets as per *AASB 116, Property, Plant & Equipment and AASB 136, Impairment of Assets*.

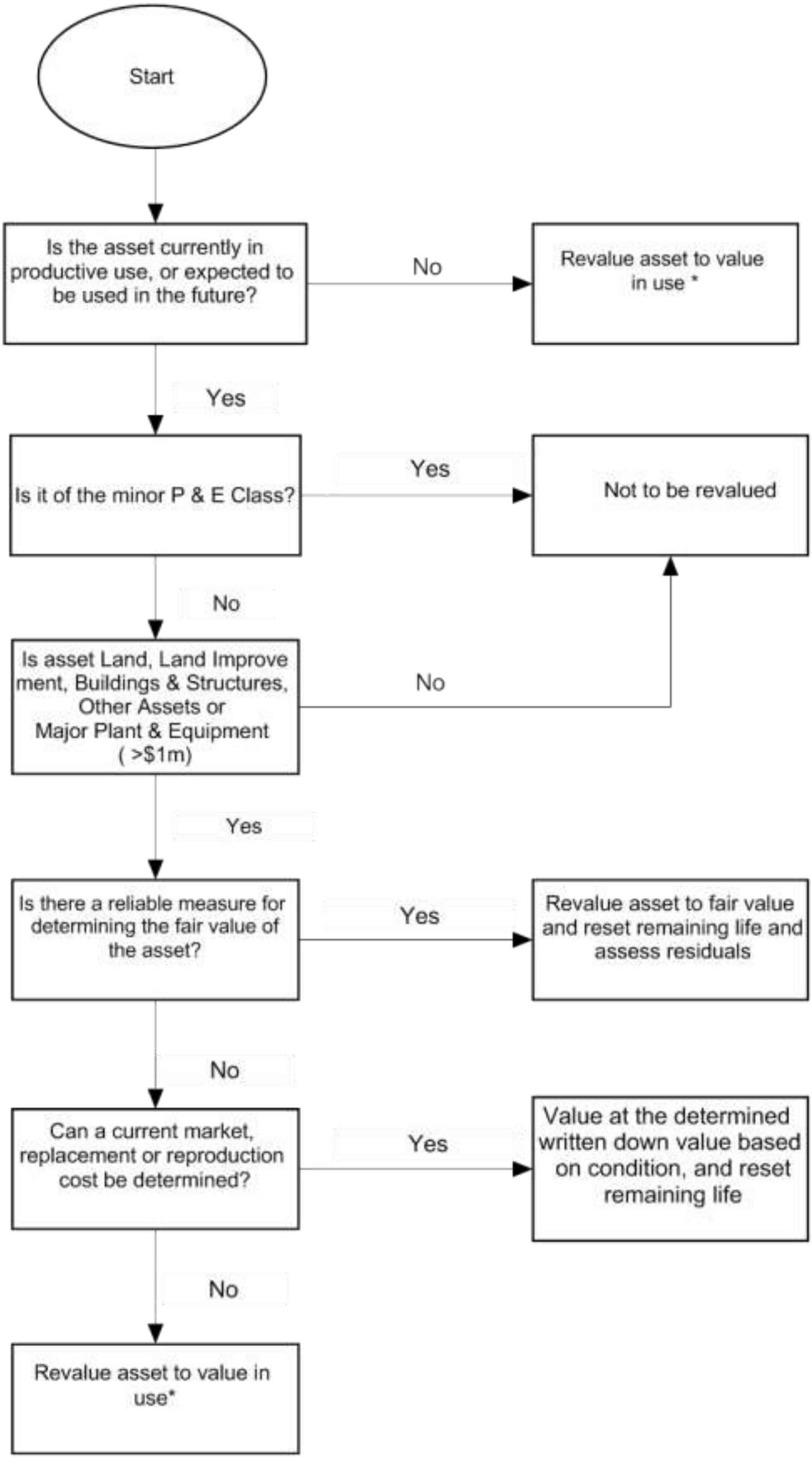
APPENDIX A

ASSET RECOGNITION



APPENDIX B

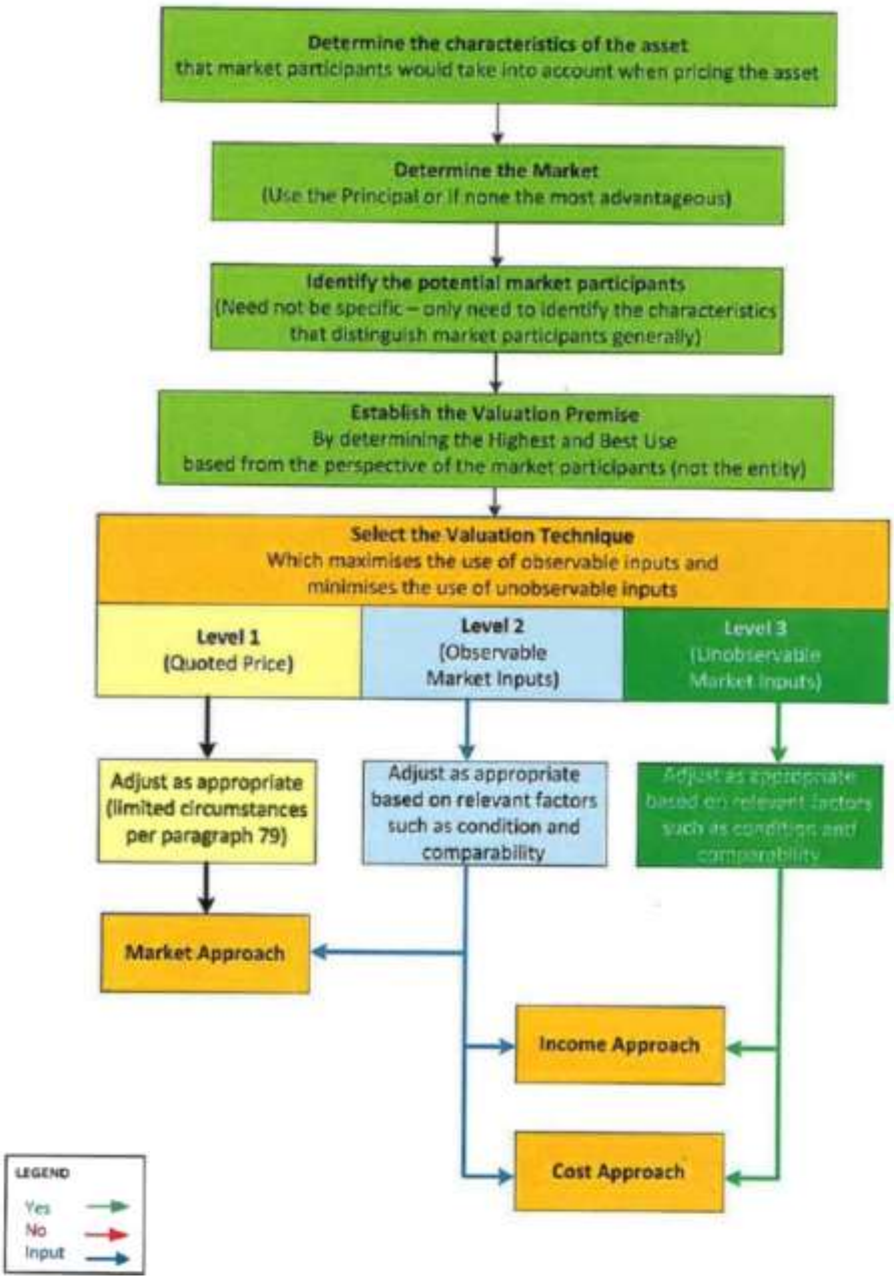
NON-INFRASTRUCTURE ASSET VALUATION



* value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

APPENDIX C

FAIR VALUE OF NON-FINANCIAL ASSESTS DECISION TREE



APPENDIX D

REFERENCES

Relevant Legislation, Policy and Guidelines:	Australian Accounting Standards (AASB's) *Local Government Act 2009* *Local Government Regulation 2012*
For Assistance with the Application of this Policy:	Director Community & Corporate Services Finance Manager