Policy – Council – *Fixed Assets*

Date created/amended*:	April 2021
Date of next review:	April 2025
Adopted by:	Council
Date adopted:	
Responsible officer:	Director Corporate and Community Services

1 PURPOSE AND SCOPE

To provide a clear framework that ensures non-current physical assets are recognised and accounted for in accordance with relevant Australian Accounting Standards and State Government legislation. The Policy also assists Council's commitment to Financial Sustainability.

This policy applies to non-current physical assets (i.e. Infrastructure, Property, Plant and Equipment) owned or controlled by Council. It is specifically directed to all staff who are involved in the acquisition, construction and disposal as well as in the management, maintenance and reporting of such assets.

2 DEFINITIONS

Assets	A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. The entity must have control over the future economic benefits or service such that it is able to enjoy those benefits or services and deny or regulate the access of others to the benefits.
Asset Class	A group of assets having a similar nature or function in the operations of Council, and which, for the purposes of disclosure, are shown as a single item without supplementary disclosure. The Asset Class is the material level at which Council will prepare the annual balance sheet for reporting in the Annual Report – e.g. the Roads Asset Class includes asset components such as surface, pavement and earthworks and formation.
Capitalisation Threshold	The value of expenditure on non-current assets above which the expenditure is recognised as capital expenditure and below which the expenditure is charged as an expense in the year of acquisition.
Current replacement cost (CRC)	The cost required currently to replace the service capacity of an asset with a substitute asset of comparable utility and condition, i.e., the depreciated replacement cost of a new asset. It is based on the cost for a market

	participant buyer to acquire or construct a substitute asset of comparable utility or service capacity, adjusted for obsolescence.
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its original acquisition or construction, including any costs necessary to place the asset into service. Where an asset is acquired at no cost, or for a nominal cost (as the case with developer and other contributed assets), the cost is its fair value as at the date of acquisition.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
Fair Value	The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arms-length transaction.
Impairment	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Indexation	A method of valuation whereby indices are applied to the cost value of a class of assets to arrive at the current cost of the class of assets.
Market Value	The notion of materiality guides the margin of error acceptable, the degree of precision required and the extent of the disclosure required when preparing general purpose financial reports. Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to influence the economic decisions of the users of these reports.
Modern Equivalent Assets	Assets that replicate what is in existence with the most cost-effective asset performing the same level of service. It is the most cost efficient, currently available asset which will provide the same stream of services as the existing asset can produce.
Non-Current Physical Asset	Tangible (physical) assets held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and which are expected to be used during more than one accounting period.
Residual Value	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.
Revaluation	The act of recognising a reassessment of values of non-current assets at a particular date. An item of property, plant and equipment is carried at its revalued amount when its fair value can be reliably measured. The revalued amount is the fair value at date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses.
Useful Life	Either: (a) the period over which an asset is expected to be available for use by an entity, or (b) the number of production or similar units expected to be obtained from the asset by the entity.
Valuation	The process of determining the worth of an asset or liability. Different valuation methods may be appropriate in different circumstances.

• **Brownfield valuation**
Valuation approach is based on the cost to replace the asset in its existing 'brownfield' (developed or built-up) location.
• **Greenfield valuation**
Valuation method where the unit valuation rates are based on the cost to acquire/construct the asset in a 'greenfield' (undeveloped) location.

3 POLICY

3.1 Initial Recognition and Measurement

In accordance with AASB 116, the cost of an item shall be recognised as a non-current asset if:

- the item has physical substance and it is probable that future economic benefits will flow to Council,
- the cost of the asset can be measured reliably,
- the asset is controlled by Council, which is able to receive the benefit and restrict other entities' access to the benefits provided by the asset,
- the asset is expected to generate benefits for Council for more than one year,
- its cost or value exceeds the recognition threshold applicable to the asset or the network of assets,
- the asset is not held for sale and it is expected to be used by the entity for greater than 12 months (non-current and not held for sale).

All assets that qualify for recognition are to be initially measured at its cost. However, where an asset is acquired at below or no cost (such as contributed assets), the cost is its fair value at the date of acquisition. If there is no readily available market for the asset received, then the cost will be its current replacement cost.

As per AASB 116, the cost of an item of property, plant and equipment will include:

a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates,
b) any costs directly attributable to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management,
c) the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which an entity incurs either when the asset is acquired or as a consequence of having used the asset during a particular period.

3.2 Capitalisation Thresholds

The cost of acquiring an asset is recorded in the balance sheet. This is called the asset's initial carrying value (or book value). However, not all assets acquired need to be recorded in the balance sheet. If an individual asset or component of an asset is not material, the cost of acquisition may be shown as an expense in the period it was incurred.

Under Australian Accounting Standard, AASB 1031 - Materiality, the test for asset recognition thresholds is whether, for a given threshold, the application of a lower value threshold would produce a materially different financial position or operating result. Based on this test, items of low value are expensed based on materiality and capitalisation thresholds have been established for all asset classes as detailed in the table below:

Asset Class	Threshold	Asset Class	Threshold
Land – specialised	$0	Sealed pavements	$10,000
Land under roads*	$0	Unsealed pavements	$10,000
Land improvements	$10,000	Sealed roads - formation	$10,000
Building – specialised	$10,000	Unsealed roads - formation	$10,000
Building – non-specialised	$10,000	Sealed surfaces	$10,000
Building – heritage	$10,000	Footpaths and cycleways	$5,000
Plant, machinery and equipment	$5,000	Kerb and channel	$5,000
Fixtures, fittings and furniture	$5,000	Culverts, pipes and pits	$5,000
Computers and telecommunications	$5,000	Bridges	$10,000
Library collection	$0	Other structures	$5,000

* Council only recognises freehold land under roads that is owned by Council.

3.3 Measurement Models

When acquired, non-current physical assets are measured at cost. Cost is the amount of cash paid and/or the fair value of other consideration given up in exchange for the asset. Cost of acquisition includes costs associated with activities necessary to prepare the asset for its intended use. Where assets are provided at below or no cost (e.g. contributed or gifted assets), the cost is its fair value at the date of acquisition. If there is no readily available market for the asset received, then the cost is its current replacement cost.

Under AASB 116, the following measurement models may be applied in the recognition of assets:

Cost Model (Historical Cost)

On initial recognition, assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. After the initial recognition, assets will be required to utilise the revaluation model below.

Revaluation Model

The fair value of an asset is the best estimate of the price reasonably obtainable in the market at the time of valuation. If the fair value can be reliably measured, the revalued amount shall be the fair value at date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses.

If the fair value of an item cannot be reliably determined using market-based evidence, its fair value is measured at its market buying price. The best indicator of an asset's market buying price is either:

- depreciated replacement / reproduction cost (DRC), or
- an income approach (Net Present Value/Discounted Cash Flows).

In the case of infrastructure assets, depreciated replacement cost is the best indicator of fair value. Depreciated replacement cost is the current cost of replacement (CRC) or reproduction of an asset less deductions for accumulated depreciation, physical deterioration and all relevant forms of obsolescence and optimisation.

Current market prices for the same or similar assets can usually be observed for land and non-specialised buildings. For land and buildings these prices can also be derived from observable market evidence (e.g. observable current market rentals) using discounted cash flow analysis.

The fair value "replacement cost" of the gross service potential of a new asset includes only the costs that would be included on initial acquisition of the asset. This is called "greenfield" cost. Local government refers to these current replacement cost unit rates as "Greenfield" unit rates. Greenfield unit rates are based only on the cost to acquire/construct the asset in a 'greenfield' (undeveloped) location. This valuation approach does not assume a specific location of the asset. As a result, existing works are not taken into account in establishing asset values. Costs that would be incurred upon subsequent replacement or renewal of an asset, such as demolition of the old assets or traffic management costs, are excluded from Greenfield unit cost.

For asset management, renewal planning requires a reasonable estimate of actual costs to replace an asset at the end of its useful life. The cost to rebuild or replace an asset includes the cost for demolition of the old asset and traffic management costs as they form part of the real cost to Council to renew its assets. These costs are referred to as 'Brownfield' unit rates, which are costs incurred to replace the asset in its existing 'brownfield' (developed) location and are based on the specific location of the asset. As a result, existing works are considered in establishing asset values.

The valuation methods for the different asset classes are outlined in Appendix A – Condition and Revaluation Schedule.

Council uses the independent valuation expert Moloney Asset Management System (MAMS) for the financial valuation of infrastructure assets. MAMS utilises 'Brownfield' unit rates because usually Council will be renewing existing assets rather than constructing new ones.

3.4 Frequency and Delivery of Valuation

Appendix A – Condition and Revaluation Schedule identifies the planned frequency at which Council will undertake revaluations and associated condition assessments for the various asset classes.

Condition assessments involve the process of continuous or periodic inspection, assessment, measurement, and interpretation of resultant data and are performed to indicate the condition of a specific asset so as to determine the need for some preventative or remedial action.

The guiding principle for revaluation frequency is that the carrying amount for each asset class reflects its fair value at the end of the reporting period. The standards further stipulate that if any item of an asset class is revalued, then the entire class to which that item belongs must be revalued as well.

Comprehensive formal valuations are to be performed by experienced independent experts. In between formal valuations, an annual desktop review of Council-owned or -controlled non-current physical asset classes are conducted as at 30th June. The Condition and Revaluation Schedule in Appendix A outlines the planned frequency at which Council will undertake comprehensive revaluations and the associated condition assessments for the various asset classes in order to ensure the valuation of assets in accordance with accounting standards and legislative requirements.

3.5 Impairment of Assets

At each reporting date, an assessment must be made as to whether there is any indication that the carrying amount of an asset may exceed its recoverable amount. Where such an indication is identified, the recoverable amount of the asset must be measured. An impairment usually results in a reduction to the asset's recoverable amount, but it can also arise from a few causes such as:

- decline in the market value of the asset,
- severe damage to the asset – e.g. after a natural disaster like a storm, flood or fire,
- technological or functional obsolescence,
- changes of a technological or economic nature.

Indexation between formal valuations is a cost-effective means of determining whether a material change in value has occurred and of avoiding sudden spikes in valuation or depreciation. However, using indexation for more than two or three years consecutively should be avoided as the link to 'fair value' can become distorted.

The following actions are to be taken to determine if indexation or impairment of assets is required:

- Land assets - request a statement of land valuation movements from Council's contract valuers.
- Infrastructure assets - request a review of unit price movements for infrastructure assets from Council's Manager Assets.
- Building and Other Structure assets - obtain a building price index movement.

The results from the above actions and the annual review are assessed in relation to the date of the last revaluation using a materiality threshold of 10% at the asset class level. If deemed material, indexation or impairment of the relevant asset class will be recorded and accounted for.

3.6 Useful Life and Depreciation

At the end of each financial year, asset depreciation and amortisation parameters, useful lives, asset condition (used to assess remaining useful lives) and residual values are to be reviewed with sufficient regularity to ensure they are representative of current conditions and expectations.

The useful life of an asset or asset component is the period over which an asset is expected to be available for use by an entity and is therefore determined by the Council using it. Useful life may differ from an asset's physical or economic life. For example, road assets may be renewed when they reach a certain condition rating, notwithstanding that the road could continue to be used for a further period.

Useful life may be measured in terms of duration (the period over which an asset or component will be used) or usage (the expected capacity or outputs it will produce).
Where an asset, such as a sealed road, consists of several major components, it is desirable to initially establish useful lives for each component.

For most infrastructure assets duration will be the appropriate basis for measuring useful life. Financial reporting standards require the useful life of an asset to be reviewed at least at the end of each reporting period, and, if expectations differ from previous estimates, the change in useful life is to be accounted for as a change in an accounting estimate.

Asset condition data is required in many cases, to either complement historic data as well as to determine remaining useful life (i.e. when an asset or component is likely to be replaced). It can also be used to confirm current estimates of total expected useful life, based on the expected rate of deterioration of an asset or component.
The systematic and consistent recording of condition data over multiple years, will allow Council to better understand the actual rate of degradation or deterioration of their infrastructure assets. The actual rate of degradation should be compared to the expected rate to determine whether current estimates of total and remaining useful life remain valid.

All Infrastructure, Property, Plant & Equipment assets having a limited useful life are systematically depreciated over their useful lives to the Council in a manner which reflects the consumption of the service potential embodied in those assets.
In accordance with AASB 116, the Council determines the method that most closely matches the pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

Common methods of depreciation used by local government include:

- **Straight-line depreciation** method where the pattern of consumption is considered to be constant over a period of time and the calculation is based on age and remaining useful life.
- **Condition-based depreciation** method is used to determine physical deterioration and is based on a correlation between the physical characteristics and condition of an asset.
- **Consumption-based depreciation** method is used to determine economic consumption and is based on consideration of holistic (functionality, capacity, utilisation, obsolescence) as well as the physical characteristics and condition of an asset.

Council uses only the straight-line and condition-based methods of depreciation.

In addition, the following aspects of AASB 116 are also adhered to:

- Where the asset has different components with varying patterns of consumption, each component is depreciated separately,
- Depreciation is calculated on a systematic basis over its useful life,
- The pattern of consumption, useful life and residual value are reviewed at year-end and the depreciation method adjusted if there are any material changes,
- Appropriate consideration is given to technical and commercial obsolescence,
- Maintenance and capital expenditure are separably identified and accounted for.

Depreciation rates are determined as follows:

- Infrastructure: useful life of asset components and residual values of roads, footpaths, bridges, kerb and channel are provided by MAMS. All infrastructure assets are depreciated from the date that the assets are ready for use.
- Buildings, Other Structures, Culverts, Pipes and Pits: useful life of asset components and residual values provided by Council's Manager Assets. Depreciation commences from the date that the assets are ready for use.
- Plant & Machinery, Furniture & Equipment, Library Collection: useful life of asset components and residual values provided by Council's Manager Finance. Depreciation commences from the date of purchase.

- Computers and Telecommunications: useful life of asset components and residual values provided by Council's Manager Information Technology. Depreciation commences from the date of purchase.

The annual depreciation charge is treated as an expense along with other annual charges such as maintenance, insurance, etc., all of which enable Council to calculate the annual cost of providing services to the community.

3.7 De-recognition of Non-Current Assets (Disposal/Write Off)

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

Residual Value is the estimated amount that Council 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.

All decisions to de-recognise an asset should be authorised and supported by appropriate documentation prior to removal from the Fixed Asset Register.
The gain or loss on disposal of assets is the difference between the proceeds and the carrying amount and should be recognised in the Comprehensive Income Statement. Proceeds will include cash received and trade-in value. Any costs associated with the disposal of the assets are to be recognised as an expense in the Profit and Loss Account.

3.8 Security and Physical Control over Non-Current Assets

Council will maintain a Fixed Asset register to ensure completeness and accuracy for all fixed assets and provide adequate record keeping.

The following internal controls are to be adopted for the Fixed Asset Register:

- All inputs must be supported by authorised source documentation in an auditable format.
- All systems and processes connected with the maintenance of Council's Fixed Asset Register are to be documented as established procedures.
- Council's Fixed Asset Register is to be reconciled on a regular basis to the control accounts maintained in the general ledger.
- Asset stocktakes are to be undertaken on a cyclical basis to ensure actual assets support reported financial information. All stocktake working papers supporting asset verification must be retained and any differences between records and physical counts should also be explained.

The Asset Custodians designated by Council shall assume full responsibility for those assets within their control. The nature of some asset classes, such as infrastructure assets, which cannot be physically removed, shall be subject to regular physical inspection for asset

management planning purposes as well as inspected for revaluation purposes. The remaining assets must be verified via an annual stocktake process which may include a rolling stocktake process conducted over several years.

3.9 Roles and Responsibilities

Council

- Responsible for policy approval
- Responsible for stewardship of community services and the associated sustainability of the infrastructure assets that produce those community services
- Responsible for providing resources for policy implementation

Director Corporate and Community Services

- Responsible for oversight and monitoring of policy and procedure implementation
- Responsible for coordination of corporate financial valuation process

Manager Finance

- Responsible for keeping corporate finance system current
- Responsible for reporting fair value in the financial statements, including impairment

Manager Assets

- Responsible for coordinating collection of inventory and condition data
- Responsible for keeping corporate Asset Management system current
- Responsible for assessment of asset impairments
- Annually review and maintain valuation supporting documentation

4 REFERENCE & RELATED DOCUMENTS

- 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 116 Property, Plant and Equipment
    - AASB 136 Impairment of Assets
    - AASB 138 Intangible Assets
    - AASB 1031 Materiality
    - AASB 1051 Land Under Roads
- Australian Infrastructure Financial Management Guidelines (IPWEA)
- Local Government: Accounting for non-current physical assets under AASB 116

4.1 Consultation and impact

Pyrenees Shire Council is committed to consultation and cooperation between management and its employees.

Development of this Policy was conducted in consultation with relevant staff and consultative committees prior to approval. It is considered that this Policy does not impact negatively on the rights identified in the Charter of Human Rights and Responsibilities (2007).

5 VERSION HISTORY

Version Number	Issue date	Description of change
1.0	October 2016	Initial release
2.0	April 2021	Review

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APPENDIX A - CONDITION AND REVALUATION SCHEDULE

Asset Group [1]	Asset Class [2]	Asset Component	Recognised Yes/No	Valuation Method			Condition Assessment		Revaluation Schedule
				Fair Value Method [3]	Age based or Condition Based	Valuation Source (internal or external)	Condition Assessment Frequency (Years)	What % Condition Inspection	Revaluation Frequency (Years)
Infrastructure	Roads - Sealed	Surface	Yes	DRC	Condition	External	3	100	3
		Pavement	Yes	DRC	Condition	External	3	100	3
		Earthworks & Formation	Yes	DRC	Condition	External	3	100	3
	Roads - Unsealed	Surface	Yes	DRC	Condition	External	3	100	3
		Earthworks & Formation	Yes	DRC	Condition	External	3	100	3
	Footpaths and Cycleways	Sealed Footpaths	Yes	DRC	Condition	External	3	100	3
		Concrete Footpaths	Yes	DRC	Condition	External	3	100	3
		Unsealed Footpaths	Yes	DRC	Condition	External	3	100	3
	Kerb and Channel		Yes	DRC	Condition	External	3	100	3
	Bridges		Yes	DRC	Condition	External	3	100	3
	Major Culverts and Underground Drainage	Major Culverts	Yes	DRC	Condition	Internal	3	100	3
		Pipes and pits	Yes	DRC	Aged	Internal			3
Land	Land - Specialised	Land - Freehold	Yes	MV		External			4
		Land - Controlled	Yes	MV		External			4
	Land - Unspecialised	Land - Freehold	Yes	MV		External			4
		Land - Controlled	Yes	MV		External			4
	Land Under Roads	Roads pre 1/7/2009	No						
		Roads post 1/7/2009	Yes	MV		External			4
	Land Improvements		Yes	DRC	Condition	Internal	4	100	4

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				Fair Value Method [3]	Age based or Condition Based	Valuation Source (internal or external)	Condition Assessment Frequency (Years)	What % Condition Inspection	Revaluation Frequency (Years)
Buildings	**Specialised**	Structure	Yes	MV	Condition	External	5	100	5
		Roof	Yes	MV	Condition	External	5	100	5
		Fit Out	Yes	MV	Condition	External	5	100	5
	Unspecialised	Structure	Yes	MV	Condition	External	5	100	5
		Roof	Yes	MV	Condition	External	5	100	5
		Fit Out	Yes	MV	Condition	External	5	100	5
	Heritage	Structure	Yes	MV	Condition	External	5	100	5
		Roof	Yes	MV	Condition	External	5	100	5
		Fit Out	Yes	MV	Condition	External	5	100	5
Plant and Equipment	**Plant, Machinery and Equipment**	Plant	Yes	HC					
		Light Vehicles	Yes	HC					
		Fleet Vehicles	Yes	HC					
	Fixtures, Fittings and Furniture		Yes	HC					
	Computers and Telecommunications		Yes	HC					
	Library Collection		Yes	HC					

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Asset Group[1]	Asset Class [2]	Asset Component	Recognised Yes/No	Valuation Method			Condition Assessment		Revaluation Schedule
				Fair Value Method [3]	Age based or Condition Based	Valuation Source (internal or external)	Condition Assessment Frequency (Years)	What % Condition Inspection	Revaluation Frequency (Years)
Other Structures	Recreational, Leisure & Community	Playing surface (grassed)	Yes	DRC	Condition	External	5	100	5
		Playing surface (synthetic)	Yes	DRC	Condition	External	5	100	5
		Playing surface (sealed)	Yes	DRC	Condition	External	5	100	5
		Playground Equipment	Yes	DRC	Condition	External	5	100	5
		Shelters	Yes	DRC	Condition	External	5	100	5
		Landscaping	No						
	Off-Street Car Parks	Sealed	Yes	DRC	Condition	External	5	100	5
		Unsealed	Yes	DRC	Condition	External	5	100	5
	Parks, Open Space and Streetscapes	Signs	No						
		Bins & Surrounds	No						
		Outdoor Furniture	Yes	DRC	Condition	Internal	5	100	5
		Barbeques	Yes	DRC	Condition	Internal	5	100	5
		Bus Shelters	Yes	DRC	Condition	Internal	5	100	5
		Sheds	Yes	DRC	Condition	Internal	5	100	5
		Fencing and Gates	Yes	DRC	Condition	Internal	5	100	5
		Retaining Walls	Yes	DRC	Condition	Internal	5	100	5

Notes:
1. Asset Management Plans are typically developed at the Asset Group level.

2. Asset Class is a term defined in Australian Accounting Standards and is used in financial valuation and capitalisation processes. Asset Class defines the level at which Council's Balance Sheet will be reported.

3. Fair Value Acronym Definitions: DRC = Depreciated Replacement Cost - HC = Historical Cost - MV = Market Value