	Fixed Assets Accounting Policy	
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	Administered by: General Manager – Finance and Business	**Last Review Date:** 2022 **Next Review Date:** 2024
Document No: D22/1278	**Strategic Outcome:** Proactive Leadership – Strategic and sustainable financial management, Proactively engage in Local Government Reform and continuous improvement	

1. Objective

The purpose of this policy is to provide a framework that ensures Adelaide Plains Council's (Council) fixed assets are recognised and accounted for in accordance with accounting standards issued by Australian Accounting Standards Board (AASB) and the *Local Government Act 1999* and *Local Government (Financial Management) Regulations 2011*.

The Policy also assists Council's commitment to Financial Sustainability by ensuring service standards/levels for Council's infrastructure assets are delivered according to a long-term assets and financial plans without the need to significantly increase rates or significantly reducing other services.

2. Scope

This policy details expenditure that is to be capitalised and the associated accounting treatment for fixed assets in Council's asset register.

3. Definitions

An **asset** is a resource controlled by the Council as a result of past events and from which future economic benefits or costs are expected to flow or be incurred by the Council.

For the purposes of this policy assets refers to Infrastructure, Property, Plant and Equipment. This includes physical assets that meet a pre-determined threshold and that are used in the course of Council business over more than one accounting period.

Carrying Amount is the amount at which the asset, or sum of the class of assets, is recorded in the accounting records as at a particular date. In application to a depreciable asset, carrying amount means the net amount after deducting accumulated Depreciation.

Condition Assessment is the technical assessment of the operational and physical conditions of an asset, using a systematic method designed to produce consistent, relevant and useful information.

Componentisation relates to assets that are made up of materially significant parts, which in turn have different lifecycles and therefore must be depreciated separately.

Current Replacement Cost is the purchase or construction cost of replacing an asset with a technologically modern equivalent new asset with the same economic benefits allowing for any differences in the quantity and quality of output and in operating costs.

Cost is 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 acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.

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

Depreciation is an expense representing the consumption of an asset overtime in providing services. It is recognised systematically for the purpose of allocating the depreciable amount of an asset over its useful life.

Depreciable Asset is an asset having a limited useful life.

Fair Value is 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 as per definition set out in AASB 13 Fair Value Measurement.

Impairment Loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Land Under Roads includes land under roadways and road reserves, including land under footpaths, nature strips and median strips.

Materiality is defined in AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 5 as follows:

"omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Residual Value (RV) is the estimated amount that an entity would currently obtain from disposal of an asset after deducting the estimated costs of disposal, if the asset was already at the age and in the condition expected at the end of its useful life.

Useful life is the period over which an asset is expected to be available for use by the Council.

4. Policy Statement

This Policy outlines relevant definitions, materiality thresholds, initial recognition, revaluations, impairment, depreciation and disposal of fixed assets and addresses Council's position on the Australian Accounting Standard (AASB) 16 – Leases.

5. Capitalisation

5.1 Assets should have a useful life of greater than one year in order for the expenditure to be capitalised and have a value above the materiality test. Materiality levels are set so as not to misstate Financial Statements and to provide a guide as to whether it is practical from an administrative perspective that expenditure is capitalised.

5.2 Materiality levels for assets capitalisation are (Ex. GST):-

Office Furniture and Equipment	$1,000
Other Plant and Equipment	$1,000
Building – new construction / extensions	$10,000
Park and Playground Furniture and Equipment	$2,000
Road construction and reconstruction	$10,000
Paving, footpaths, kerb and gutter	$2,000
Pram Ramps	$1,000
Drains and Culverts	$5,000
Reticulation extensions	$5,000
Sidelines and household connections	$5,000
Plant, Machinery and Equipment	$1,000
Furniture and Equipment	$1,000
Street lighting	$5,000
Information Technology hardware and computer equipment	$1,000

5.3 No capitalisation threshold is applied to the acquisition of land or interests in land. Assets specifically excluded from capitalisation include directional and informational signage, trees and Land Under Roads.

5.4 Where the value of individual assets fall below the asset threshold for capitalisation, but the assets form part of a network or asset group such as for park furniture on a reserve, consideration will be given to capitalising the individual asset based on whether the aggregate value of those assets exceeds the capitalisation threshold.

5.5 All capitalised expenditure is to be recorded in Council's asset register and shall be properly identified, recorded and classified. For each asset, a determination shall be made of its total life, estimated remaining useful life, cost for accounting purposes and method of depreciation.

6 Acquisition of Assets

6.1 Council's Assets may be acquired by purchase, construction, donation or received free of charge (as in the case of infrastructure assets received from developers in new land divisions).

6.2 Assets acquired by Council shall be recorded in line with applicable accounting standards using the cost method of accounting which is the fair value given as consideration plus costs incidental to acquisition including architect's fees, engineering fees and all other costs incurred in preparing the asset ready for use.

6.3 The cost of assets constructed by the Council will include the cost of all materials used in construction, direct labour employed and, where relevant, an appropriate internal allocation amount to represent indirect labour overheads and the use of Council's internal plant and machinery used on the project. Labour overheads will be based on outdoor labour hours worked and plant and machinery allocation will be based on usage.

6.4 Date of acquisition of all assets will be the 30 June of the financial year in which the acquisition is made.

7 Revaluation

7.1 After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated Depreciation and subsequent accumulated Impairment Losses. All infrastructure assets, land and buildings shall be revalued on a regular basis such that the carrying value does not differ materially from that which would be determined using fair value at the end of the reporting period. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

7.2 Typically, fair value is taken as being the current replacement cost owing to the specialised nature of the assets of the Council and inability to purchase or sell them on the open market. The *market approach* is used where there is an active and liquid market. The *income approach* is usually used only with for-profit entities where the asset generates income/profits then the assets must be measured on either the cost or fair value basis. *Market evidence* should be used for determining valuations wherever such evidence exists. Current replacement cost will be the basis of valuation of structures on Community Land. Structures erected or constructed on non-Community Land that have a market value will however need to be valued using a market based approach.

7.3 Staff members responsible for the maintenance and accuracy of the data relevant to the asset information in the asset register shall in consultation with the finance team ensure that revaluations occur regularly in accordance with AASB 13 - Fair Value Measurement.

7.4 To perform a revaluation the following is required:

- Assessment of fair value (i.e. market value or replacement cost)
- Assessment of asset condition
- Assessment of remaining asset life
- Affirmation of depreciation method
- Assessment of any asset impairment

7.5 Date of revaluation of assets will be the 1 July of the of the financial year in which the revaluation is made.

7.6 Land and Buildings - unit rates shall be reviewed annually with a comprehensive revaluation every five (5) years. The valuation will cover both insurance and accounting valuation.

7.7 Infrastructure (including roads, footpaths, bridge and stormwater drainage) and CWMS assets - unit rates and useful lives shall be reviewed annually where possible, with a physical condition assessment undertaken at least t every five (5) years.

7.8 Furniture, Plant, Machinery and Equipment assets are recorded initially at the purchase cost. These items are then assessed annually as part of plant and equipment management process by the staff.

7.9 Furniture, Plant, Machinery and Equipment assets recognised at cost, generally are lower in materiality, have shorter useful lives, and have active secondary markets making cost a reasonable proxy for fair value. Therefore, Furniture, Plant, Machinery and Equipment assets will not be subject to periodic comprehensive revaluation.

8 Leases

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

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

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

8.4 The following leases will be excluded from capitalisation:

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

9 Assets Register

9.1 Registers of all assets shall be maintained and shall record individual assets in sufficient detail as to permit their identification and control. The assets registers shall be updated at least annually.

9.2 The assets registers shall be used for the purpose of revaluing and depreciating assets and for stocktaking.

9.3 A stocktake of all plant and equipment, including computer equipment, shall be conducted at least every 2 years. A stocktake of inventory shall be conducted every year

10 Register of Attractive Portable Items – IT and Minor Depot Assets

10.1 A register of items which are attractive and portable shall be maintained for the purpose of controlling and safeguarding items which by their nature are at risk of loss.

10.2 A stocktake of such items shall be conducted at least every 2 years.

10.3 Attractive portable items are items which are more likely to be subject to loss due to theft or misplacement and shall include items such as cameras, portable TVs, videos and communication equipment. This register will not only include assets which are capitalised but also those that fall below the threshold for capitalisation. The justification for inclusion and separate identification in the register pertains to the assets qualities of portability and potential high risk of loss given their attractiveness.

11 Impairment

11.1 Assets whose future economic benefits are not dependent on the ability to generate cashflows, and where the future economic benefits would be replaced if Council were deprived thereof, are not subject to impairment testing.

11.2 Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. Assets that are subject to depreciation will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use). For assets whose economic benefits are not dependant on the ability to generate cash flows, and where the future economic benefits would be replaced if Council were deprived thereof, the value in use (infrastructure assets) is the depreciated replacement cost.

11.3 At 30 June each year an assessment must be made as to whether there is any indication that the carrying amount of an asset may exceed its recoverable amount. An impairment usually results in a reduction to the asset's recoverable amount and can arise from a number of causes, as follows;

- Decline in the market value of the asset
- Severe damage to the asset
- The asset has been rendered obsolete
- Changes of a technological or economic nature

11.4 If there is an indication that an asset may be impaired, this may mean that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Accounting Standard applicable to the asset, even if no impairment loss is recognised for the asset.

12 Physical Resources Received Free of Charge

12.1 An item of Property, Plant and Equipment may be gifted or contributed to the council. As per AASB 116 - Property, Plant and Equipment, the cost of the item is its fair value at the date it is acquired.

13 Depreciation

13.1 Other than land, all Property, Infrastructure, Plant and 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.

13.2 The depreciation method applied shall be the straight-line basis.

13.3 Useful Lives, residual values and depreciation rates shall be reviewed at the end of each financial year as per accounting standard requirements.

13.4 Various sub categories/components of asset classes have different estimated useful lives and therefore attract different depreciation rates.

13.5 Major depreciation periods for each class of asset are shown below.

Plant, Furniture and Equipment		
Office Equipment and Furniture	4 to	25 years
Street lighting	15 years	
Information Technology hardware and computer equipment	2 to	10 years
Vehicles and Road-making Equipment	6 to	40 years
Other Plant and Equipment	5 to	40 years
Building and Other Structures		
Buildings – masonry	50 to	150 years
Buildings – other construction	20 to	40 years
Park Structures – masonry	50 to	100 years
Park Structures – other construction	20 to	40 years
Playground equipment	5 to	15 years
Benches, seats,	10 to	20 years
Infrastructure		
Sealed Roads – Surface	15 to	30 years
Sealed Roads – Structure	20 to	130 years
Unsealed Roads	10 to	30 years
Bridges – Concrete	80 to	150 years
Paving and Footpaths, Kerb and Gutter, Drains	50 to	100 years
Culverts	50 to	80 years
Flood Control Structures	80 to	100 years
Reticulation Pipes – PVC	70 to	80 years
Reticulation Pipes – other	25 to	75 years
Pumps and Telemetry	15 to	25 years

14 Disposal of Fixed Asset

14.1 Assets will be disposed of in accordance with Council's Disposal of Land or Other Assets Policy.

14.2 The carrying amount of an item of property, plant and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised.

14.3 The difference between any net proceeds from disposal (after deducting selling costs) and the remaining carrying value of an asset will be treated as either a gain or loss in the year the asset is disposed of.

14.4 Where existing assets are renewed the value of the component of the asset that has been renewed is to be disposed and a new asset created. If the part of the asset disposed of has been retained, its value needs to be recognised in the new asset or separated into a new asset component if its useful life differs materially to the new asset.

14.5 Date of disposal will be 30 June of the financial year that the disposal occurred

15 Related Documents

Adelaide Plains Council - Infrastructure and Asset Management Plan.
Adelaide Plains Council - Strategic Plan

16 Records Management

All documents relating to this Policy will be registered in Council's Record Management System and remain confidential where identified.

17 Document Review

This Policy will be reviewed periodically to ensure legislative compliance and that it continues to meet the requirements of Council and its activities and programs.

18 References

Australian Accounting Standard AASB 13
Australian Accounting Standard AASB 116

Local Government Act 1999 – Section 124 and 125

Local Government (Financial Management) Regulations 2011 – Part 3

Asset Management Policy

LGA Financial Sustainability Information Paper 17 - Depreciation and Related Issues 2016

19 Further Information

Members of the public may inspect this Policy free of charge on Council's website at www.apc.sa.gov.au or at Council's Principal Office at:

2a Wasleys Road, Mallala SA 5502

On payment of a fee, a copy of this Policy may be obtained.

Any queries in relation to this Policy must be in writing and directed to Council's General Manager – Business and Finance via info@apc.sa.gov.au.