Asset Accounting Policy

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Responsible Division	Resources
Related Documents	*Annual Budget* *Procurement Policy* *Disposal of Council Land & Other Assets Policy* *Financial Internal Controls Policy* *Prudential Management Policy* *Treasury Management Policy* *Strategic Management Plans:* • *Community Strategic Plan* • *Long Term Financial Plan* • *Infrastructure and Asset Management Plan*
Applicable Legislation	*Local Government Act 1999* *Australia Accounting Standards and Regulations*

Alexandrina Council's assets shall be recognised, capitalised and revalued in accordance with Australian Accounting Standards and this Policy.

1. Background

1.1 Councils have an obligation to ensure that current assets are managed and maintained efficiently and that decisions regarding the acquisition of new assets and the sale of existing assets are undertaken in an open, accountable and transparent fashion.

1.2 Sound asset management is key to the financial sustainability of every Council.

1.3 Alexandrina Council has an adopted 10 year *Infrastructure and Asset Management Plan* to assist in meeting its infrastructure management objectives. Council's *Long Term Financial Plan* and *Annual Business Plan and Budget* incorporate the needs identified in the *Infrastructure and Asset Management Plan*.

1.4 The Institute of Public Works Engineering Australia (IPWEA) through its National Asset Management Strategy Australia (NAMS) project has developed the *Australian Infrastructure Financial Management Manual 2015*, these have been used in the development of this policy.

2. Definition of an Asset

Asset - a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Capital Expenditure – relatively large (material) expenditure, which has benefits expected to last more than 12 months. Capital expenditure includes renewal, expansion and upgrade. Where capital projects involve a combination of renewal, expansion and/or upgrade, the total project cost needs to be allocated accordingly.

Capital Renewal – expenditure on an existing asset or on replacing an existing asset, which returns the service potential or the life of the asset up to that which it had originally e.g. resurfacing or re-sheeting a road, replacing drainage pipes with pipes of the same capacity.

Capital Upgrade – expenditure which enhances an existing asset to provide a higher level of service or increases the life of the asset beyond which it had originally e.g. widening the sealed area of an existing road, replacing drainage pipes with pipes of a greater capacity.

Capital Expansion – expenditure which creates a new asset providing a new service/output that did not exist beforehand or expenditure that extends the capacity of an existing asset to a new group of users e.g. extending a drainage or road network.

Maintenance – all actions necessary for retaining an asset as near as practicable to its original condition, including regular ongoing day-to-day work necessary to keep assets operating e.g. road patching.

Asset Management – the combination of management, financial, economic, engineering and other practices applied to physical assets with the objective of providing the required level of service in the most cost effective manner.

Fair Value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

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.

Impairment – the amount by which the carrying amount on an asset or cash-generating unit exceeds its recoverable amount.

3. Recognition of an Asset

3.1 An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost that can be measured reliably.

3.2 Council may capitalise costs from the point which the research and planning phases of a capital project are complete and it is highly probable that the project will be completed. If a decision is made to terminate or materially rescope a capital project, any expenditure that was previously capitalised shall be expensed.

3.3 Assets should have a useful life of greater than one year to enable capitalisation of the expenditure and should also meet a materiality test. Materiality levels are set so as not to misstate Financial Statements and to provide a guide whether it is practical from an administrative perspective that expenditure is capitalised. No capitalisation threshold is applied to the acquisition of land or interests in land.

3.4 Materiality levels for capitalisation are:

Asset Type	Materiality Level
Infrastructure	$10,000

Land Improvements	$20,000
Buildings	$15,000
Furniture and Fittings	$ 5,000
Operational Equipment	$ 5,000
IT Equipment	$ 3,000
Other	$ 5,000
Plant	$15,000
Software	$50,000

3.5 Networked assets – Expenditure can still be capitalised on items that fall below the materiality thresholds individually, but operate together as a cohesive whole to form a significant total value, for example the computer network, CWMS Pumps or Stormwater Pumps.

3.6 Road signs are not capitalised in infrastructure. Council has elected not to capitalise Library Book Stock.

3.7 Software capitalisation involves the recognition of purchased or internally-developed software as an asset. The following costs, which may include coding, software/hardware installation and testing, can be capitalised:

- Materials and services consumed in the development effort, such as third party development fees, data conversion and migration, software purchase costs, and travel costs related to development work.
- The payroll costs of those employees directly associated with software development, implementation or testing.

3.8 Any costs related to user training, administration, project stakeholders meeting, project governance committee cost and overheads will expensed as incurred.

3.9 Non-council and community buildings, structures and associated assets (on crown land that is under the control of Council) will not be valued in Council's asset register and therefore will not be depreciated. Council will only recognise an asset in the event of expiration/termination of the lease and the abandonment of the building and associated assets, unless the lease agreement specifies otherwise. In the event of a loss, it is recognised that Council would not necessarily replace the building and associated assets. Council may still conduct insurance valuations as per terms of lease agreements currently in place.

4. Accounting Treatment of New Construction Projects

4.1 The following is an outline of the phases in a typical new construction project. Based on the accounting principles, the appropriate accounting treatment for both common costs incurred throughout the project and the costs incurred in each phase have been determined.

Summary of Accounting Treatment of New Construction Projects

Phase	Step	Cost Items	Accounting Treatment
Phase 1 – Concept Development	Project Concept	Staff costs: - Project team - Everyday operational	 Expense Expense
Phase 2 - Feasibility Study (Financial and Economic Business Case)	Proposal requesting Capital Works funding for a feasibility study	Staff costs: - Project team - Everyday operational Consultant costs Travel costs	 Expense Expense Expense Expense
	Feasibility Study (Needs Assessment)	Staff costs: - Project team - Everyday operational Consultant costs Travel costs	 Expense Expense Expense Expense
	Forward Design Proposal and Cost Benefit Analysis (both prepared using Feasibility Study results)	Staff costs: - Project team - Everyday operational Consultant costs Travel costs	 Expense Expense Expense Expense
Phase 3 - Forward Design	Engage Project Director/Manager	Staff costs: - Project team - Everyday operational - Project Management costs Travel costs	 Capitalise Expense Capitalise Capitalise
	Design Agent produces the required design Documents	Architectural/Design Consultant costs Quantity Surveyor costs Specialist Consultant costs Travel costs	Capitalise Capitalise Capitalise Capitalise
	Design Acceptance	Staff costs: - Project team - Everyday operational	 Capitalise Expense

Phase	Step	Cost Items	Accounting Treatment
Phase 4 – Construction	Business Case proposal for Construction Funding (using results from Feasibility Study and Forward Design)	Staff costs: - Project team - Everyday operations	 Capitalise Expense
	Pre-Construction Relocation	Staff costs: - Project team - Everyday operational Removalist costs Rental costs	 Capitalise Expense Capitalise Expense
	Project Director/Manager goes out to tender for construction	Staff costs: - Project team - Everyday operational - Project Management costs - Tender costs Insurance Costs Travel Costs	 Capitalise Expense Capitalise Capitalise Capitalise Capitalise
	Project Director/Manager engages Builder and other construction contractors	Staff costs: - Project team - Everyday operational Procurement costs: - Project Management costs - Construction costs	 Capitalise Expense Capitalise Capitalise
	Defect period commences after formal Handover. Staff, through Project Director (or Project Manager), ensure Defects list is completed and defects fixed.	Staff Costs: - Project team - Everyday operational	 Capitalise Expense
Phase 5 - Fit-Out	Tender for External Project Delivery Provider	Staff costs: - Project team - Everyday operational Tender Costs	 Capitalise Expense Capitalise
	External Project Delivery Provider selected for fit-out	Staff costs: - Project team - Everyday operational Project Management costs Consultant costs	 Capitalise Expense Capitalise Capitalise
	Purchase of fit-out items	Asset Purchase costs	Capitalise
	Installation of assets	Fit-out costs	Capitalise

Phase	Step	Cost Items	Accounting Treatment
Phase 6 - Post-Construction Relocation	Moving into completed building (where applicable)	Staff costs: - Project team - Everyday operational Removalist costs	 Expense Expense Expense
Phase 7 - Running Costs	Costs that Council should take note of after the Project complete stage for planning their future funding requirements	Depreciation	Expense
		Ongoing repair & maintenance	Expense
		Insurance cost	Expense

5. Measurement at Recognition

5.1 An item that qualifies for recognition as an asset shall be measured at its cost on the date of recognition unless it is a gifted asset in which case it will be recognised at Fair Value. The following years after asset recognition the asset will be valued at Fair value according to the revaluation program of the Alexandrina Council.

5.2 The following table contains activities to which external costs and associated wages should be classified as either Operating or Capital expenditure;

Operating Expenses	Capital Expenses
• Condition and compliance audits • Design costs that were not implemented • Development application fees • Tender preparation/presentations • Geographic Information System (GIS) data capturing • Infrastructure and Asset Management Plans development • Preparation of project brief reports • Employee training costs and development of employee training materials • Insurances • Advertising, marketing or promotion • Bank guarantees or other finance mechanisms • Cab charges • Car parking • Introducing a new product or service • Land divisions • Administration and other general overhead costs • Legal fees • Catering • Cleaning • Maintenance • Opening a new facility costs • Planning approval • Preliminaries - Costs associated with projects up to the point when Council formally decides that a capital project will be undertaken (e.g. feasibility studies, research studies, master plans, concept plans and investigations) • Security • Signs (promotional and advertising) • Stationery	• Costs of employee benefits directly related to the construction or acquisition of the of the asset • Traffic management • Site preparation • Detailed design costs, where construction is planned within three years • Professional fees that are directly linked to the construction or commissioning of an asset (e.g. consultants' fees) • Plant and equipment internal use and hire costs used in construction or acquisition of assets • Delivery/freight and handling costs • Disposal of assets being replaced including dump fees • Materials used in the construction of the asset(s) • Earthworks, where the earthworks directly link to an asset • Engineering survey fees • Installation and assembly costs • Interest expenses incurred on borrowings that were *specifically* used to finance the construction or acquisition of asset(s) • Contamination testing and soil removal • Levies (e.g. Construction Industry Training Board) • Testing of the asset(s) • Road line marking (when performed as part of resurfacing the road. Periodic re-line marking is an Operating expense) • Relocation or re-connection of existing • assets (e.g. stormwater pipes) controlled by a private party • Safety and compliance sign off

5.3 The above examples have been derived from Australian Accounting Standards, the South Australian Model Financial Statements and the IPWEA Australian Infrastructure Financial Management Manual.

6. Measurement at Fair Value

6.1 AASB 13 Fair Value Measurement is effective for accounting periods beginning 1 July 2013. The principles of AASB 13 are intended to increase the consistency and comparability of fair value estimates in financial reporting.

6.2 AASB 13 requires the use of a Fair Value hierarchy where assets are reported as level 1, level 2 or level 3 Inputs. This refers to how the value of the asset has been determined. The following table outlines the Fair Value Hierarchy Disclosure Classification by asset class for Alexandrina Council.

Hierarchy	Description
Level 1 Inputs	**Quoted Prices – active markets**
Financial Assets	A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g. on different exchanges).
Level 2 Inputs	**Observable Inputs**
Land Council Buildings on Non-Community Land and are able to be used commercially (e.g. Offices, Libraries, and shops), Plant, Furniture & Equipment	Level 2 inputs include the following: a) Quoted prices for similar assets or liabilities in active markets. b) Quoted prices for identical or similar assets or liabilities in markets that are not active. c) Inputs other than quoted prices that is observable for the asset or liability.
Level 3 Inputs	**Unobservable Inputs**
Buildings on Community Land, Community Land, All Infrastructure Assets, Software Assets	An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs such as the entity's own forecasts. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data and shall adjust that data if reasonably available information indicates that other market participants would use different data.

7. Depreciation of Non-Current Assets

7.1 All non-current assets have a limited useful life with the exception of Land and Land Improvements. The depreciable amount of all non-current assets, excluding freehold land and land improvements, are systematically depreciated over their useful lives which reflects the consumption of the service potential embodied in those assets.

7.2 Depreciation of an asset begins when it is available for use i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management and ends when it is classified as held for sale or when derecognised.

7.3 Depreciation of Council's assets is calculated on a straight-line basis outlined in the Asset Management Policy and Revaluation Management Plant. . The actual useful life and therefore depreciation rates may be varied for specific assets where asset quality and environmental and/or operational conditions so warrant.

8. Revaluation of Non-Current Assets

8.1 Non-current assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at reporting date in accordance with Australian Accounting Standards and Regulations under the Local Government Act.

8.2 The following asset classes will remain at cost and will not be revalued.

- Right-of-Use Assets
- Furniture & Fittings
- Plant & Equipment
- Software

8.3 Non-current assets that are subject to revaluation will be revalued annually by at least applying a suitable price escalator with a more rigorous review of asset valuations (conducted on a 'fair value' accounting basis) occurring at an interval of no more than 5 years.

9. Residual Values of Non-Current Assets

9.1 The residual value of vehicles, plant and furniture and fittings that are traded at the end of their useful life, can be calculated via AASB 13 Fair Value Measurement. The residual value of the asset is what is expected to be obtained at trade in. The residual values of plant, equipment and furniture and fitting assets are based on market evidence and advice provided by Council's independent valuations of these assets.

9.2 Residual values are not recognised for infrastructure and building assets.

10. Impairment

10.1 Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. Assets that are subject to depreciation are 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 value exceeds its recoverable amount in accordance with AASB 136.

11. Disposal or Sale of Assets

11.1 The disposal or sale of Council assets must be made in accordance with Alexandrina Council's Acquisition and Disposal of Land Policy, Acquisition and Disposal of Road Policy and Disposal of Council Assets Policy.

12. Availability of Policy

This Policy will be available on the Council's website www.alexandrina.sa.gov.au. Copies will also be provided to interested members of the community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.