

ASSET ACCOUNTING

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Responsible Division	Resources
Related Documents	<i>Annual Budget</i> <i>Procurement Policy</i> <i>Disposal of Council Land & Other Assets Policy</i> <i>Financial Internal Controls Policy</i> <i>Prudential Management Policy</i> <i>Treasury Management Policy</i> Strategic Management Plans: <ul style="list-style-type: none"> • <i>Community Strategic Plan</i> • <i>Long Term Financial Plan</i> • <i>Infrastructure and Asset Management Plan</i>
Applicable Legislation	Australia Accounting Standards and Regulations Local Government Act 1999

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

Background

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.

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

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*.

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.

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.

Recognition of an Asset

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.

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.

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.

Materiality levels for capitalisation are:

Asset Type	Materiality Level
Infrastructure	\$10,000
Land Improvements	\$20,000
Buildings	\$15,000
Furniture & Fittings	\$5,000
Operational Equipment	\$5,000
IT Equipment	\$3,000
Other	\$5,000
Plant	\$15,000
Software	\$50,000

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.

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

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.

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

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.

Accounting Treatment of New Construction Projects

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	Proposal requesting Capital Works funding for	Staff costs: - Project team	Expense
(Financial and Economic Business Case)	a feasibility study	- Everyday operational Consultant costs Travel costs	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
	Business Case proposal for Construction Funding (using results from Feasibility Study and Forward Design)	Staff costs: - Project team - Everyday operations	Capitalise Expense

Summary of Accounting Treatment of New Construction Projects Cont.

Phase	Step	Cost Items	Accounting Treatment
Phase 4 – Construction	Pre-Construction Relocation	Staff costs: - Project team - Everyday operational Removalist costs Rental costs	Capitalise Expense Capitalise Expense
		Minor fit out costs	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
	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 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 Ongoing repair & maintenance Insurance cost	Expense Expense Expense

Measurement at Recognition

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.

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
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 <u>specifically</u> 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

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

Measurement at Fair Value

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.

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.

Depreciation of Non-Current Assets

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.

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.

Depreciation of Council's assets is calculated on a straight-line basis using the following standard estimates for useful lives. 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.

Buildings and Other Structures

- Sub structure	150 years
- Super structure	50 to 100 years
- Roofing	40 to 50 years
- Fit out	15 to 25 years
- Services	30 years

Plant, Furniture and Equipment		
-	Office Equipment	5 to 10 years
-	Office Furniture and Fittings	10 to 35 years
-	Office Electrical Equipment	4 to 10 years
-	IT Equipment	3 to 10 years
-	Operational Equipment	5 to 25 years
-	Plant	units of usage
-	Software	10 years
Bridges		
-	Sub structure	40 to 100 years
-	Super structure	40 to 100 years
-	Culverts	80 to 100 years
Stormwater		
-	Pipes	10 to 100 years
-	Pits	50 to 80 years
-	Treatment & pumping	15 to 80 years
Footpaths		
-	Gravel/Quarry Sand/Limestone	20 years
-	Concrete	50 to 70 years
-	Block/Paved/Brick	40 years
-	Asphalt	20 to 25 years
-	Spray Seal	20 years
-	Footpaths Pavement Sub-base	60 to 280 years
Kerbing		
Unsealed Roads Surface		50 to 70 years
Sealed Road Surfaces		12 to 35 years
-	Spray Seal	13 to 20 years
-	Asphalt	13 to 25 years
-	Paved	40 years
Sealed Road Pavement		
-	Rural Access Track	80 years
-	Collector Roads – Rural & Urban	45 to 60 years
-	Distributor Roads – Rural & Urban	45 to 60 years
-	Local Roads – Rural & Urban	40 to 90 years
-	Urban Access Lane	40 to 90 years
-	Public & Roadside Car Parks	100 years
-	Sealed Road Pavement Sub-Base	160 to 400 years
Water		
Community Wastewater Management Schemes (CWMS)		15 to 80 years
-	Manholes	20 to 80 years
-	Pipes	70 to 80 years
-	Treatment & Pumping	15 to 80 years

Revaluation of Non-Current Assets

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*.

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

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

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.

Residual Values of Non-current Assets

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.

Residual values are not recognised for infrastructure and building assets.

Impairment

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.

Disposal or Sale of Assets

The disposal or sale of Council assets must be made in accordance with Alexandrina Council's *Disposal of Council Land and Other Assets Policy*.

Asset Management

The goal of infrastructure management is to meet a required level of service, in the most cost effective manner, through the management of assets for present and future customers.

To ensure long-term sustainability, council has a responsibility for planning, developing and maintaining infrastructure which forms the foundation of our community.

Three key elements are pivotal to the future viability of the community.

1. That Council understands and accepts its stewardship responsibilities
2. That Council is aware of what their community can afford
3. That Council moves quickly from annual budgeting to long-term financial planning

When developing its *Infrastructure and Asset Management Plan* the following 4 steps were taken into consideration:

1. Know what assets council already owns and the service standards target for those assets. Then estimate the cost to maintain the assets to meet the level of standard of service.

2. Consider any increased demand and costs for services from development growth or the impact of a declining population or other changes in population.
3. Prepare a life cycle management plan for all of council's assets. This will diminish the risk of unexpected expenditure when assets start failing.
4. Undertake risk and financial projections to determine which assets are most important to the community, its needs and safety.

Following the four step process highlights what it costs to look after the assets that council currently own and only after this can we make an informed decision about additional assets the community can afford.

Asset investment appraisal process

Resources are limited and Council does consider, (in all asset investment decision making) the community need with available resources and a long term outlook. All projects above a threshold of \$25,000 including funds from all sources go through the appraisal process set out in the *Prudential Management Policy*. This will ensure due diligence is applied to all projects.

Projects should only *be approved* once the impact on the long term financial plan has been determined and agreed by Council.

Key Financial Indicators

The Key Financial Indicators enable an assessment of Council's long term financial performance and position and will place Council on a path to deliver long term sustainability of operations and give it the flexibility to respond to anticipated future costs. The Key Financial Indicators support a positive forward outlook and adherence over the longer term to Council's financial sustainability.

The Financial Indicators have been calculated in accordance with *Information Paper 9 – Local Government Financial Indicators* prepared as part of the *LGA Financial Sustainability* program for the Local Government Association of South Australia. Council has set targets for its Key Financial Indicators to guide revenue and expenditure decisions, overall budget strategies and future decision making.

Asset Renewal Funding Ratio

The Asset Renewal Funding Ratio indicates the extent to which non-financial assets are being renewed and replaced, compared with what is needed to cost-effectively maintain service levels. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the optimal level of such expenditure proposed in Council's *Infrastructure and Asset Management Plan*.

The target level for this ratio is 90 – 110%.

Availability of Policy

This Policy will be available for inspection at Council's Principal office during ordinary business hours and 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.