City of Kwinana

Policy

Recognition and Depreciation of Assets

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Adopted:	25/11/1987 #446
Last reviewed:	25/11/2009 #033 28/04/2010 #105 11/07/2012 #163 08/04/2015 #428 23/08/2017 #572 13/03/2019 #416
New review date:	13/03/2020
Legal Authority:	Local Government Act Section 2.7 – The Role of Council Local Government Act 1995 Local Government (Financial Management) Regulations1996 Australian Accounting Standards
Directorate:	City Strategy
Department:	Finance
Related documents:	Nil

Note: Changes to References may be made without the need to take the Policy to Council for review.

Policy:

1. Title

Recognition and Depreciation of Assets Policy

2. Purpose

The City owns, creates, purchases and manages assets and must ensure that effective and accountable systems are in place to safeguard the City's resources. This includes the development of appropriate systems to record the location and value of fixed assets acquired or constructed by the City. Fundamental considerations in the effective management of fixed assets are the determination of what constitutes a fixed asset, at what threshold value they should be capitalised and how depreciation is to be treated.

3. Scope

This policy applies to all fixed assets owned, purchased, created and managed by the City.

4. Definitions

"Carrying amount" is defined in Australian Accounting Standards Board (AASB) 116 as the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

"Cost" is defined in AASB 116 as 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.

"Depreciable amount" is defined in AASB 116 as the cost of an asset, or other amount substituted for cost, less its residual value.

"Depreciation" is defined in AASB 116 as the systematic allocation of the depreciable amount of an asset over its useful life.

"Fair value" is defined in AASB 13 as 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.

"Property, plant and equipment" is defined in AASB 116 as tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

"Residual value of an asset" is defined in AASB 116 as 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.

"Useful life of an asset" is defined in AASB 116 as:

(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 an entity.

5. Policy Statement

In accordance with Australian Accounting Standards and the Local Government Act 1995, the City values all assets using the fair value model, every four years.

Fair value is considered to be the best estimate of the price reasonably obtainable in the market at the date of the valuation. It is the most advantageous price reasonably obtainable by the seller and by the buyer.

In determining fair value, there is a presumption that the entity disposing of the asset is a going concern and has no aim to liquidate assets or materially alter the scale of its operations. It is also assumed that the asset is exchanged after an adequate period of marketing to obtain its most advantageous price.

A principal test in determining fair value is whether there is an active and liquid market for the asset. Where a quoted market price in such a market is available, that price represents the best evidence of the asset's fair value.

Fair value is also determined in reference to an asset's highest and best use, which results in the highest value.

AASB 116 provides that the fair value of land and buildings is usually determined from market based evidence and appraisal by professionally qualified valuers, however there is no statutory requirement to use valuers. The fair value of plant and equipment is usually the market value of items as determined by appraisal. Where there is no market-based evidence of fair value because of the specialised nature of property, plant and equipment (and the item is rarely sold), fair value may need to be estimated using an income or a depreciated replacement cost approach. AASB 13 notes that fair value is a market-based measurement and not an entity-specific measurement. While market information might be available for some assets and liabilities, market information may not be available for others. Hence another valuation technique may be required. The valuation techniques are:

1. Market approach - uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities or group of assets and liabilities.
2. Cost approach - the amount that would be required currently to replace the service capacity of an asset (also referred to as 'current replacement cost').
3. Income approach - involves converting future amounts (cash flows or income and expense) to a single current (discounted) amount.
4. Depreciated replacement cost - the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

All new assets are measured initially at their cost of acquisition. In accordance with the AASB, where an asset is acquired at no cost, the cost of the acquisition is deemed to be the asset's fair value.

The cost of acquisition is defined as including the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

When an asset is valued at fair value all assets of that class must be valued using the same method.

There are some assets that are "specialised" in nature, which is where the market evidence might not be available to guide fair value measurement. Such specialised assets may include infrastructure, land under infrastructure, specialised plant such as that used in waste and recycling facilities, sewerage plants, and historical or cultural assets. AASB 116 recognises the specialised nature of some assets and, as previously mentioned, provides for an income or depreciated replacement cost approach to be used to determine fair value. Note: Land and buildings are separate classes of assets and need to be valued separately.

Recognition

As part of preparing the statutory financial statements, expenditures incurred by the City must be classified as either being 'operational in nature' or being such that they result in the creation of a 'fixed asset' (capital in nature). The manner in which expenditure is classified has a major impact on results disclosed in the Operating Statement and on the financial position disclosed in the City's Statement of Financial Position. Those items which are 'capitalised' must be depreciated over their useful life, which is determined according to the particular asset class to which that item belongs. Items that are 'expensed' rather than capitalised are to be included as operating expenditure at the time of incurring the cost.

The nature of the expenditure must be carefully considered to determine whether it creates a new fixed asset or whether it constitutes a repair or maintenance.

Reference to relevant professional accounting standards and practice statements provide guidance in this regard.

To effectively balance the administrative workload of recording and maintaining a reliable Asset Register with the risk and compliance issues attaching to the proper classification of capital expenditure, regulation 17A(5) of the Local Government (Financial Management) Regulations 1996 states:

> *"An asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under $5 000."*

To permit this and to ensure compliance with the regulations, expenditure to acquire or enhance an asset should be capitalised if the expenditure is above the following thresholds and meets the definition of an asset:

Asset Group	**Threshold Amount**
Land	$5,000
Artworks	$5,000
Buildings	$5,000
Furniture and Equipment	$5,000
Plant and Equipment	$5,000
Motor Vehicles	$5,000
Roads	$5,000
Drainage	$5,000
Footpaths	$5,000
Parks and Reserves	$5,000

Non-infrastructure assets are capitalised progressively throughout the year, at the time of acquisition or commissioning ready for use. Infrastructure assets are capitalised only at the conclusion of the financial year after the close off of accounts or at the time during the financial year that it can be determined that all expenditure relating to that item has been completed for the year.

Depreciation

Depreciation will commence from the date of acquisition or in respect of internally constructed assets, when the asset is first brought into use or held ready for use. Depreciation is recognised on a straight-line basis, using rates which are reviewed each year.

An addition or extension, which becomes an integral part of an existing asset, should be depreciated over the remaining useful life of that asset. An addition or extension, which remains a separate identity and will be capable of being used after the existing asset is disposed of, should be capitalised and depreciated independently.

Assets will be depreciated in accordance with the following schedule of useful lives:

Land	**Not Depreciated**
Buildings (including structural components, internal fit-out, mechanical services, security, fire systems, and other building structures)	2 - 100 years
Plant & Equipment	
Motor Vehicles	3 - 10 years
Other Plant & Equipment	3 - 20 years
Furniture & Equipment	
Computer & Audio Visual Equipment	2 - 7 years
Office Furniture & Equipment	3 - 15 years
Other Furniture & Equipment	5 - 15 years
Art Works	Not Depreciated
Infrastructure – Roads (including pavement, subgrade, surface, kerbs and barriers)	0 - 100 years
Infrastructure – Footpaths	40 - 80 years

Infrastructure – Drainage (including pits, pipes, chambers and culverts)	80 years
Infrastructure – Car Parks	5 - 20 years
Infrastructure – Bus Shelters	20 - 25 years
Infrastructure – Street Lights	15 - 30 years
Infrastructure – Parks & Reserves (including playground equipment, shade structures, irrigation assets, park furniture and BBQ's, fencing, lighting, public art and other park and reserve structures)	10 - 50 years

Revaluation

If a class of assets is valued at fair value, the carrying amount of those assets in the financial statements should not materially differ from the fair value of the assets at the date of reporting. Where a non-current asset is measured at fair value, AASB 116 states:

> *"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.*
>
> *Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period."*

Regulation 17B(4) of the Local Government (Financial Management) Regulations 1996 states:

> *"A local government must revalue an asset of the local government —*
>
> *(a) whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount; and*
>
> *(b) in any event, within a period of at least 3 years but no more than 5 years after the day on which the asset was last valued or revalued."*

A process of rolling revaluation by asset class is adopted, providing all assets in a class are valued within the same financial year and before the reporting date.

AASB 116 provides significant commentary and guidance on how to deal with an increase or decrease in an asset's carrying amount and depreciation of an asset on revaluation as well as how these should be treated in accounting records and financial reports.

AASB 116 also provides that 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.

The City adopted a phased-in approach over three years with full implementation of fair value occurring at 30 June 2015. The City elected to revalue plant and equipment, land and buildings and infrastructure assets in alternative years. The following timeframe was applied:

Financial Year	Asset Group / Resources
2012/13	Plant and Equipment
2013/14	Land and Buildings (including specialised and non specialised buildings valued at component level)
2014/15	Infrastructure and all other assets (including intangible, historical and cultural assets, library books, art collections, etc.)
2015/16	Plant and Equipment
2016/17	Land and Buildings (including specialised and non specialised buildings valued at component level)
2017/18	Infrastructure and all other assets (including intangible, historical and cultural assets, library books, art collections, etc.)
2018/19	Revaluation by exception only (only if required)
2019/20	Plant and Equipment
2020/21	Land and Buildings (including specialised and non specialised buildings valued at component level)
2021/22	Infrastructure and all other assets (including intangible, historical and cultural assets, library books, art collections, etc.)
2022/23	Revaluation by exception only (only if required)
Rotating cycle every four years	All asset classes are revalued on a four-yearly cycle: Year 1: Plant and Equipment Year 2: Land and Buildings (including specialised and non specialised buildings valued at component level) Year 3: Infrastructure and all other assets (including intangible, historical and cultural assets, library books, art collections, etc.) Year 4: Revaluation by exception only (only if required)

Excluded Assets

Regulation 17B of the Local Government (Financial Management) Regulations 1996 states:

"A CEO must take all reasonable steps to prevent the theft or loss of —

(a) a non-consumable asset that is susceptible to theft or loss due to its portable nature and attractiveness for personal use or resale; and

(b) an asset referred to in regulation 17A(5)."

Assets that are excluded from recognition under regulation 17A(5) of the Local Government (Financial Management Regulations) 1996 will be recorded on a separate register held in the City's document management system.

6. Financial/Budget Implications

There are no direct financial or budget implications associated with this policy; however the importance of safe guarding the City's resources and maximising returns is addressed within this policy.

7. Public Health Implications

There are no public health implications associated with this Policy.

8. Asset Management Implications

There are no asset management implications associated with this Policy.

9. Environmental Implications

There are no environmental implications associated with this Policy.

10. Strategic/Social Implications

This proposal will support the achievement of the following objectives and strategies detailed in the Corporate Business Plan.

Plan	Outcome	Objective
Corporate Business Plan	Business Performance	5.4 Ensure the financial sustainability of the City of Kwinana into the future

11. Occupational Safety and Health Implications

There are no OSH implications associated with this Policy.