Council Policy

Recognition and Depreciation of Assets

Council Policy	Recognition and Depreciation of Assets
Legal Authority	Local Government (Financial Management) Regulations 1996 Part 2 5A *Local Governments to comply with AAS* Local Government (Financial Management) Regulations 1996 Part 2 17A *Assets, valuation of for financial reports etc.*
Department	Finance

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, leased and managed by the City.

4. Definitions

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

"Contributed Asset" is an asset acquired by the City at nominal or no cost, usually by way of agreement with property developers, through State Government arrangements or bequeathed to the City.

"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 a non-financial asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

"Leases" is defined in AASB 16 stating that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

"Intangible Asset" is defined in AASB 138 as an identifiable, non-monetary asset without physical substance.

"Right of use (RoU) Asset" is defined in Local Government Financial Management Regulations 1996 17A (FMR17A) as an asset that is controlled but not owned by the Local Government entity and includes the local government's right to use –
(a) Crown land; or
(b) Other land that is not owned by the local government,
that is vested in the local government at nil or nominal cost for an indefinite period for the purpose of roads or any other purpose.

"Vested improvement" is defined in FMR17A as a pre-existing improvement on land of which the care, control or management is vested in the local government at nil or nominal cost for an indefinite period.

"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

With the exception of plant and equipment and other 'right of use' assets, the City values its assets using the fair value model in accordance with Australian Accounting Standards.

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. Where there is no market-based evidence of fair value because of the specialised nature of the asset (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 (see Contributed assets).

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, 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.

5.1 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:

> *"A non-financial 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
Buildings	$5,000
Furniture and Equipment	$5,000
Plant and Equipment	$5,000
Other Assets (Artwork, historical or cultural assets)	$5,000
Intangible Assets	$5,000
Right of Use Asset - Lease	$5,000
Roads	$5,000
Drainage	$5,000
Footpaths	$5,000
Car Parks	$5,000
Bus Shelters	$5,000
Street Lights	$5,000
Parks and Ovals	$5,000
Other Infrastructure	$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.

Assets under construction are not depreciated until the project is completed and the asset is available for use. Assets under construction are to be recognised separately in the Annual Financial Report as Works In Progress.

All purchases of new assets are to be from Council approved capital budgets. Decisions and procedures to purchase new assets must be consistent with the Council's procurement policy.

5.2 Contributed Assets

In accordance with AASB 116 (Aus15.1) *Property, Plant & Equipment*, contributed assets shall be recognised at fair value under the relevant asset class. In accordance with AASB 1058 Income of Not for Profit Entities, a corresponding revenue (as determined as the difference between the consideration for an asset and the asset's fair value) is to be recognised as 'non-cash' capital income.
Under AASB 116 paragraph 7, an item of property, plant and equipment shall be recognised if; and only if,

a) It is probable that future economic benefits associated with the item will flow to the entity; and
b) The cost of the item can be measured reliably.

Developer contributed assets shall be measured and recognised in the year the 'As Constructed' documentation is lodged with Asset Management Services. All other contributed assets shall be recognised at the point at which legal title is transferred or control is obtained over the asset. For land this may be a land title notification, for other types of assets it may be a legal contract, letter or Council decision. Consideration shall be given to AASB 116 when determining the point of recognition.
Assets contributed under the City's Developer Contribution Agreements (DCA 1-15) are to be separately identifiable for DCA audit purposes.

Contributed assets (and the relative non-cash capital income) will be measured as follows:

a) Infrastructure assets shall be measured using the unit rates calculated from the Engineering Design Cost Estimate sheet, where an asset falls outside this scope valuations will be obtained from the cost of the construction supplied in the developers scheduled rates.
b) Building assets shall be measured using the cost of construction available from the developer; if this is not provided then a valuation should be obtained from an external valuer.
c) Land shall be measured using the Unimproved Capital Value available from the rating and land titles system; if this is not provided then a valuation should be obtained from an external valuer.
d) Park and Infrastructure shall be measured using the cost of construction available from the developer; if this is not provided then a valuation can be obtained utilising in-house knowledge.
e) Other assets shall be measure using the cost of construction available from the contributor; if this is not provided then a valuation can be determined using in-house knowledge.

After initial recognition, contributed assets are to be depreciated and revalued in-line with their relevant asset class as outlined in this Policy.

5.3 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.

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 with regards to the following schedule of useful lives:

Asset Class	**Useful Life**
Buildings	2 to 100 years
Furniture & Equipment	
Computer & Audio-Visual Equipment	2 to 7 years
Office Furniture & Equipment	3 to 15 years
Other Furniture & Equipment	5 to 15 years
Plant & Equipment	
Plant & Equipment	5 to 15 years
Motor Vehicles	3 to 10 years
Other Plant & Equipment	3 to 20 years
Infrastructure	
Roads (excluding sub-grade)	12 to 80 years
Footpaths	40 to 80 years
Drainage	80 to100 years
Carparks	5 to 20 years
Bus Shelters	20 to 25 years
Street Lights	15 to 30 years
Parks & Ovals	10 to 50 years
Other Infrastructure	30 to 40 years

Intangible Assets	5 to 30 years
Right of Use Assets	Lease term

Assets that are **NOT** depreciable:
- Freehold and Vested Land;
- Road Sub-grade;
- Artworks and Art Collections.

5.4 Revaluation

If a class of assets is valued at fair value, the carrying amount of those non-financial 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 17A(4) of the *Local Government (Financial Management) Regulations 1996* states:

"A local government must revalue a non-financial asset of the local government referred to in sub regulation (2)(a) —

> *(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 no more than 5 years after the day on which the asset was last valued or revalued"*

Regulation 17A(2b) of the *Local Government (Financial Management) Regulations 1996* specifically excludes plant and equipment type assets from the revaluation requirement, with such assets to be measured using the cost model approach.

The City applies a process of rolling revaluations by asset class 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.

The City elects to revalue land, buildings and infrastructure assets in alternative years. The following 5-year cycle for revaluing each asset class is to be applied:

Financial Year	**Asset Group / Resources**
2020/21	Land and Buildings
2021/22	Infrastructure – Civil (Roads, footpaths, car parks, bus shelters, street lights, drainage, sea walls)
2022/23	Infrastructure – Parks & Ovals
2023/24	Other assets (Art collections, historical or cultural assets).
2024/25	Revaluation by exception (only if required)
Rotating cycle every 5 years	All asset classes are revalued on a five-yearly cycle: Year 1: Land and Buildings

	Year 2: Infrastructure - Civil Year 3: Infrastructure – Parks & Ovals Year 4: Other assets Year 5: Revaluation by exception (only if required)

5.5 Right of Use (RoU) Assets / Leased Assets

At inception of a contract, the City assesses if the contract contains or is a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for considerations.

AASB 116 *Leases* removes the distinction between operating and finance leases for lessees and requires the recognition of a RoU asset and lease liability on the Statement of Financial Position, with the exception of short-term leases and low value leases.

All contracts that are classified as short-term leases (a lease with a remaining term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease. The City deems leases for an underlying asset valued less than $5,000 to be a ‘low value’ lease.

At the commencement date, a right of use asset and a corresponding lease liability are recognised at the present value of all future lease payments (cost). The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined within the lease agreement, the City uses its incremental borrowing rate as published by the Western Australian Treasury Corporation (WATC).

Regulation 17A of the Local Government Act (Financial Management) Regulations 1996 specifically requires right of use assets to be valued at cost. Concessionary leases (‘peppercorn leases’) such as vested crown land and other land, which is not owned by the LG entity, but which is under its control or management, is a concessionary lease right of use asset and should be reported at zero cost. This includes land that was previously classed as having state or regional significance such as golf courses, showgrounds, or race courses.
As an exception to this, vested improvements, in accordance with FMR 17A and 17A(2c), are to be recorded as a right of use asset at fair value rather than cost.

Subsequent improvements on concessionary land leases such as roads, buildings or other infrastructure constructed by the City are to be disclosed within their relevant asset class at fair value.

5.5.1 Depreciation of Leased Assets

Right of use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the lesser. Where a lease transfers ownership of the underlying asset, or the cost of the right of use asset reflects that the City anticipates to exercise a purchase option, the specific asset is amortised over the useful life of the underlying asset.

5.6 Low Value 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.

5.7 Asset Impairment and Write-off

Any loss or damage to assets must be reported to the Manager Finance.

The Manager Finance or delegated financial officer must:

- Record the details of the loss or damage and include details in the Delegated Authority Register such as:
    - Date
    - File reference / asset number or reference
    - Description of asset
    - Brief description of the circumstances and action taken, for example, recovered, repaired, recommended for write-off.
- Investigate the loss to determine the cause and take any action necessary to prevent similar loss or damage in the future
- Report the details to the Chief Executive Officer, including
    - Remedial action taken
    - Recommendation as to whether any recovery action should be taken against an official(s) or any person
    - Whether write-off is recommended.

5.8 Asset Disposal

Disposals are to be included in the City's Annual Budget as adopted by Council Resolution and must be made in accordance with section 3.58 of the Local Government Act 1995 and Regulation 30 of the Local Government (Functions and General) Regulations 1996.

All disposals must also be made in accordance with Delegated Authority 2.2.7 *Disposing of Property.*

Disposal of land is delegated to the Chief Executive Officer only with the intended sale price being greater than or equal to the valuation.

The CEO may authorise the disposal of property where the market value is determined to be less than $10,000 (F&G r30(3) excluded disposal) without reference to Council resolution. The CEO must ensure that the best value return is achieved or in instances where the property is determined as having nil market value then, as a minimum, the disposal must be environmentally responsible.

Plant and equipment assets, not identified in the City's Annual Budget, with a written down value of less than $2000 that have been lost, or are no-longer used or serve no other purpose, may be removed from the asset register and disposed with the approval of sub delegates identified in Delegated Authority 2.2.7 Disposing of Property.

For record keeping any disposal is also required to be:

a) Recorded in the Delegated Authority Register;
b) Updated in the Tender Register accordingly; and
c) Where appropriate, any disposal requiring a declaration under the Related Party Disclosure Policy must be done so via the Related Party Disclosure Form (D17/44460).

6. References

Date of adoption and resolution No.	25/11/1987 #446
Review dates and resolution No.	25/11/2009 #033 28/04/2010 #105 11/07/2012 #163 08/04/2015 #428 23/08/2017 #572 13/03/2019 #416 28/07/2021 #472
Next review due date	13/3/2023
Related documents	**Acts/Regulations** *Local Government Act 1995* *Local Government (Financial Management) Regulations1996* *Australian Accounting Standards*

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