Document Control	
Policy Title	*Asset Recognition and Valuation Policy*
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Responsible Directorate	**Office of the CEO**
Responsible Position	**Manager Assets**
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1.0	28/10/2020	M17/10/20

1. Purpose

To apply a systematic approach to the recognition and financial valuation of non-current assets, in accordance with relevant Australian Accounting Standards and legislative requirements in order to provide greater understanding and accuracy of Council's position and capital requirements.

2. Scope

This policy applies clarity and consistency to the financial treatment of capital expenditure, revaluations, impaired assets, disposals and acquisitions.

3. Related Legislation

State Government Legislation

- Local Government Act 2009
- Local Government Regulation 2012
- Land Act 1994 (revised November 2014)

Australian Accounting Standards

- AASB 5 – Non-current Assets held for Sale and Discontinued Operations
- AASB 13 – Fair Value Measurement

- AASB 101 – Presentation of Financial Statements
- AASB 116 – Property, Plant and Equipment
- AASB 16 – Leases
- AASB 136 – Impairment of Assets (Encompassing Pronouncement AASB2016-4)
- AASB 138 – Intangible Assets
- AASB 1031 – Materiality

4. Related Documents

- ISDP400 Asset Management Policy
- XXXX Asset Recognition and Valuation Procedures (in draft)
- Strategic Asset Management Plan

Superseded Documents

- CSP402 Definition and Recognition of Current Assets
- CSP403 Definition and Recognition of Non-current Assets
- CSP404 Classification of Non-current Assets for Reporting Purposes
- CSP405 Depreciation of Non-current Assets
- CSP406 Depreciation Variables - Useful Life, Depreciation Rate, Residual Value etc.
- CSP407 Valuation and Revaluation of Non-current Assets.
- CSP408 Valuation of Infrastructure Assets

5. Definitions

To assist in interpretation of this policy and associated corporate procedures the following definitions apply:

- **Amortisation:** The systematic allocation of the cost of an intangible asset (less any residual value) over its useful life to reflect patterns of periodic consumption of the asset.
- **Assets**: Resources controlled by Council from which future economic benefits or service potential are expected. An essential characteristic of an asset is that Council must have control over the future economic benefits or service.
- **Asset Custodian**: delegated Council officer accountable for the management and decision making of an asset or asset group.
- **Asset Class:** A group of assets having a similar nature or function in the operations of Council, and which, for the purposes of disclosure, are shown as a single item without supplementary disclosure. The

Asset Class is the material level at which Council will prepare the annual statement of financial position for reporting in the Annual Report for example, the roads asset class includes asset components such as surface, pavement, earthworks and formation.

- **Asset Recognition:** The process whereby a non-current asset is included in the financial asset register and therefore recognised in Council's Statement of Financial Position.
- **Asset Renewal:** Capital works that reinstates some or all of the original service potential of an asset.
- **Capital Expenditure:** Relatively large (material) expenditure, which has benefits, expected to last for more than 12 months. Also includes costs that are incurred over the life of an asset that either renew, extend or upgrade the asset's underlying service potential.
- **Capital expenditure – New:** Expenditure which creates a new asset providing a new service/output that did not exist beforehand. As it increases service potential it may impact revenue and will increase future operating and maintenance expenditure.
- **Capital expenditure – Renewal:** Expenditure on an existing asset or on replacing an existing asset, which returns the service capability of the asset up to that which it had originally. It is periodically required expenditure, relatively large (material) in value compared with the value of the components or sub-components of the asset being renewed.
- **Capital expenditure – upgrade:** Expenditure, which replaces a previously existing asset with enhanced capability or function, where an option existed for replacement without the enhanced capability or functionality.
- **Cost / Historical Cost:** The amount of cash paid or the fair value of the consideration given to acquire an asset at the time of its original acquisition or construction, including costs of making the asset ready for use. Where an asset is acquired at no cost, or for a nominal cost (as with developer and other contributed assets), the value is its fair value as at the date of acquisition.
- **Depreciation:** the systematic allocation of the depreciable amount of an asset over its useful life.
- **Depreciable amount:** the cost of an asset, or other amount substituted for cost, less its residual value.
- **Depreciation Expense:** A systematic charge against revenue made for the purpose of allocating the depreciable amount of a depreciable asset over its useful life. Council records depreciation as a monthly allocation.
- **Fair Value:** The amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arms-length transaction.
- **Fixed Assets:** Buildings, Roads, Sewerage, non-mobile infrastructure.
- **Replacement Cost:** The amount at which an asset is recorded (either at cost or fair value) within the asset register, excluding any deduction for accumulated depreciation or accumulated impairment losses.
- **Impairment:** Decrease in service potential of an asset as a consequence of an irregular event, resulting in its recoverable amount being less than its written down value.
- **Intangible Asset:** An identifiable non-monetary asset without physical substance.

- **Market Value:** The price that would be received to sell an asset in an orderly transaction between market participants, excluding transaction costs but inclusive of any transport costs.
- **Non-Current Asset:** An asset held by Council for use rather than exchange and which provides an economic benefit for a period greater than one year. Also called fixed asset.
- **Residual Value:** The residual value of an asset is 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 eg. Fleet assets.
- **Useful life:** (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. Refer to the Strategic Asset Management Plan for standard useful lives and unit rates.
- **Written Down Value / Depreciated Replacement Cost:** The amount at which an asset is recorded within the asset register after any deduction for accumulated depreciation or impairment losses.

6. Policy Statement

6.1 General

It is a requirement that councils complete financial valuations of their fixed assets, as governed by Australian Accounting Standards and legislation. A primary outcome of this requirement is that Council's statement of financial position will reflect the fair value of Council's portfolio of non-current assets.

For non-current assets, indexed Historical Cost will generally not provide a reliable measurement of Fair Value. Typically, only relatively short-lived or low value assets such as plant and equipment, and intangible assets will continue to be carried at Historical Cost, as this is expected to provide a reasonable approximation of Fair Value for these short-lived assets. All other Asset Classes will typically be recognised at Fair Value.

The Fair Value basis of recognition ensures that the consumption of non-current assets (i.e. depreciation expense) approximates the expected long term average costs to renew or replace those assets. This depreciation expense is accounted for via Council's Statement of Financial Position and the Statement of Comprehensive Income.

Knowledge of asset values is essential for the efficient and effective management of assets. Asset valuation information also assists in making decisions regarding the allocation of resources to those assets.

This policy drives consistent processes to produce comparable valuations for both financial reporting and asset management.

Australian Accounting Standard AASB 116 Property, Plant & Equipment prescribes the accounting treatment for property, plant and equipment and provides for assets initially recognised at cost or fair value to be subsequently revalued to Fair Value. Council must apply the same valuation approach to an entire Asset Class.

6.2 Asset Classes for Financial Reporting

The following asset classes are reported by Council:

1. Land and site improvements;
2. Buildings;
3. Plant and equipment;
4. Heavy plant;
5. Road, bridge and drainage;
6. Water;
7. Sewerage;
8. Other infrastructure;
9. Rail; and
10. Intangible assets.

6.3 Asset Recognition

Prior to capitalisation in the asset register as a non-current asset the item must satisfy the following criterion:

1. Council must have control over the asset.
2. It is probable that future economic benefits or service potential associated with the item will flow to Council (future economic benefit).
3. The cost or fair value of the asset can be measured reliably.
4. Its value exceeds the Council's asset recognition threshold

6.4 Asset Recognition Threshold

The table below sets the threshold amount by asset class for recognition in the asset register.

Asset Class	Recognition Threshold
Land	$1
Site Improvements	$5,000
Buildings	$5,000
Plant and equipment	$5,000
Heavy Plant	$5,000
Road, Bridge & Drainage	$5,000
Water	$5,000
Sewer	$5,000
Other Infrastructure	$5,000
Rail Infrastructure	$5,000
Intangible Assets	$50,000

6.5 Capital Costs on Assets after initial recognition

Any costs incurred on assets after initial recognition are to be capitalised whenever the associated work renews, extends or upgrades the asset's underlying service potential.

6.6 Asset Valuation Method

All Council assets that qualify for recognition are to be initially recorded at cost. Where an asset is acquired at no cost (contributed/donated) or for nominal cost, the value is deemed to be its fair value at the date of acquisition.

The valuation method applicable to each Asset Class subsequent to initial recognition is as follows:

Asset Class	Basis	Valuation Method
Land	Fair Value	Market Value
Site Improvements	Fair Value	Depreciated current replacement cost
Buildings	Fair Value	Depreciated current replacement cost
Plant and equipment	Cost	Historical Cost
Heavy Plant	Fair Value	Market Value
Road, Bridge & Drainage	Fair Value	Depreciated current replacement cost
Water	Fair Value	Depreciated current replacement cost
Sewer	Fair Value	Depreciated current replacement cost
Other Infrastructure	Fair Value	Depreciated current replacement cost
Rail Infrastructure	Fair Value	Depreciated current replacement cost
Intangible Assets	Cost	Historical Cost

6.7 Review of Depreciation and Amortisation Parameters (Including Useful Life, Asset Condition, Remaining Useful Life, and Residual Value)

Asset depreciation and amortisation parameters, useful lives, asset condition (used to assess remaining useful lives) and residual values are to be reviewed with sufficient regularity to ensure that they are representative of current conditions and expectations at the end of each financial year.

6.8 Asset Revaluations

All assets subject to a revaluation process are to be revalued at Fair Value.

With the exception of Heavy Plant valued at Market Value, the Gross Revaluation method is to be applied to all assets subject to revaluation, whereby any accumulated depreciation at the date of revaluation is restated proportionately with the change in the asset's replacement cost.

The Net Revaluation method is to be applied to all assets within the Heavy Plant class valued at Market Value, whereby the accumulated depreciation is eliminated against the replacement cost of the asset.

With the exception of assets that remain valued at cost, a full revaluation of each asset class is undertaken at a minimum every five years.

An interim revaluation using indices developed via a desktop approach is to be undertaken annually for an asset class subject to regular revaluations whenever there has been a material movement in current replacement cost (or market value, where applicable) since the last full revaluation.

Refer to the Strategic Asset Management Plan for the revaluation schedule.

6.9 Asset Impairment

All assets with a carrying value exceeding $100,000, on the financial asset register are to be reviewed annually for impairment.

An impairment loss will be recognised immediately as an expense, unless the asset class is carried at a revalued amount. In this circumstance, any impairment losses shall be treated as a revaluation decrease in accordance AASB 136 Impairment of Assets to the extent it reverses any previous revaluation increment.

6.10 De-recognition of Assets

A financial asset is to be de-recognised in the financial asset register whenever:

- The asset is destroyed, abandoned or decommissioned with no future economic benefit expected to be generated from its use.
- The asset is scrapped, sold or traded; or
- The asset is lost or stolen; or

• Control of the asset is transferred to another entity

De-recognising an asset requires authorisation by the relevant Asset Custodian.

Partial de-recognition of an infrastructure asset is to occur whenever:

• A significant component or section of an infrastructure asset is destroyed, abandoned or decommissioned with no future economic benefit expected to be generated from its use; or

• Major renewal works have been undertaken resulting in a significant component or section of an infrastructure asset being replaced.

6.11 Management of Work In Progress

Work in Progress balances are to be reviewed quarterly and reported to Executive Team to determine appropriate resourcing requirements and manage acceptable risk exposure. Completed works are targeted to be capitalised as soon as possible after practical completion with a target timeframe of prior to 30 June in the same financial year.

7. Review Trigger

This policy will be reviewed when any of the following occur:

1. The related legislation/documents are amended or replaced.
2. Other circumstances as determined from time to time by a resolution of Council
3. As initiated by the CEO or Executive Team.
4. Periodic Review – 01/11/2024

8. Appendices

Nil