

### *Our Vision*

Nambucca Valley ~ Living at its best

### *Our Mission Statement*

‘The Nambucca Valley will value and protect its natural environment, maintain its assets and infrastructure and develop opportunities for its people.’

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## **1.0 Policy objective**

The aim of this policy is to contribute to the better management of assets of the Council and to provide accurate data regarding assets in all financial documents.

This policy addresses the accounting treatment of non-current assets that provide future economic benefit to Nambucca Shire Council and the community.

## **2.0 Related legislation**

- AASB 13 – Fair Value Measurement
- AASB 101 – Presentation of Financial Statement
- AASB 108 – Accounting Policies, Change in Accounting Estimates and Errors
- AASB 116 – Property, Plant and Equipment
- AASB 117 – Leases
- AASB 136 – Impairment of Assets
- AASB 138 – Intangible Assets
- AASB 1031 – Materiality
- AASB 1051 – Land Under Roads

## **2.1 References and Council Documents**

- OLG Code of Accounting Practice and Financial Reporting
- Asset Values Materiality Policy
- Asset Valuation and Revaluation Policy
- Capitalisation Versus Expenses Policy
- Nambucca Shire Council Asset Management Plans

## **3.0 Definitions**

“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.

**“Carrying amount”** is defined in 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.

**“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.

## **4.0 Policy Content**

This policy applies to all of Council’s recognised non-current infrastructure, property, plant and equipment (IPPE).

### **4.1 General Requirements:**

#### **Asset Classes:**

- Fleet, Plant & Equipment
- Office Equipment
- Furniture & Fittings
- Land – Operational or Community
- Land under Roads – Post 1/7/2008
- Buildings
- Other Structures
- Infrastructure:
  - Roads
  - Bridges
  - Footpaths
  - Bulk Earthworks
  - Stormwater Drainage
  - Water
  - Sewerage

- Other Infrastructure
- Swimming Pools
- Other Open Space Recreational Assets
- Other Assets
- Remediation of Tip
- Works In Progress

## **Asset Recognition**

All non-current Property Plant and Equipment assets are initially measured at cost and must be recorded in Council's Financial Asset register.

For an asset to be recognised it must meet the following criteria:

- It is probable that future economic benefits associated with the item will flow to Council
- Council has control over the asset
- The cost or fair value of the item can be measured reliably
- The cost or fair value exceeds Council's Asset Values Materiality Policy
- The item is not held for sale and is expected to be used by the entity for more than 12 months

An item that meets the definition of an asset shall be measured at cost in accordance with AASB 116

The cost of an asset will include:

- Purchase price less deductions (rebates, discounts etc)
- Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. This would include:
  - Costs of employee benefits (as defined in AASB 119 Employee Benefits) arising directly from the construction or acquisition of the asset.
  - Costs of site preparation and/or restoration and dismantling costs.
  - Initial delivery and handlings costs
  - Installation and assembly costs
  - Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)
  - Professional Fees

Purchase costs excluded from the cost of an asset include:

- Costs of opening a new facility
- Costs of introducing a new product or service (including costs of advertising and promotional activities)
- Costs of conducting business in a new location or with a new class of customer (including costs of staff training) and
- Administration and other general overhead costs

For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.

## **Asset Recognition Threshold**

The asset recognition thresholds that apply to each asset class are detailed in Council's Asset Values Materiality Policy

## **Capital Expenditure on Assets after initial Recognition**

Capital expenditure on existing assets can be capitalised when the amount exceeds the asset recognition threshold and where the associated works improve the condition of the asset beyond its originally assessed standard of performance or capacity.

This can occur through:

- An increase in the remaining service potential provided by the asset; and or
- Increasing the useful life of the asset.

Outlays that do not meet the above criteria must be expensed. For example, expenditure that merely restored an asset to its expected condition in service, or repaired damage or wear and tear that would have prevented the asset reaching its original estimated useful life, are expensed as maintenance.

Where major cyclical maintenance is carried out, the expense incurred is capitalised to the extent that future potential is enhanced.

## **Disposal**

All non-current assets will be de-recognised when:

- The asset is destroyed, abandoned or decommissioned with no future economic benefits expected from its use
- The asset is scrapped, sold or traded
- The asset is lost or stolen, or
- Control of the asset is transferred to another entity

Partial disposal of an infrastructure asset is to occur whenever:

- A 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 component or section of an infrastructure asset being replaced.

Any gain or loss arising on de-recognition of the asset shall be included in Council's Income Statement in the year the asset is de-recognised.

## **Updating the Asset Register**

To ensure accurate and timely update of asset registers for all asset movements the following is required:

- The finalisation of a project is to be conveyed immediately to the asset management team.
- Identification of projects costs to be capitalised v expensed.
- Identification of costing of asset components.
- Capitalisation of assets and/or components in the asset register on completion of each project.
- Capitalisation of developer asset dedication on the release of a subdivision certificate or occupancy certificate
- Identification of new asset v asset renewal expenditure
- Identification and processing of assets disposed

- Depreciation of assets quarterly
- Reconciliation of the asset register to the general ledger on at least a quarterly basis.
- A reconciliation of the financial asset register to the GIS should be performed with Revaluation of classes

## **Asset Revaluations**

Fleet, Plant & Equipment, Furniture & Fittings, Office Equipment, Other Assets and Library Books are stated at their Fair Value in Council's Financial Statements as approximated by depreciated historical cost.

Operational Land is valued at Market Value (highest and best use) AASB13.

Community Land is valued using Land Values obtained from the NSW Valuer General.

All other classes are valued using the cost approach method (AASB13).

When an item of IPPE is revalued, its entire class should be revalued.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of 'Revaluation Reserve'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If the carrying amount of a class of assets decreased as a result of a revaluation, the net revaluation decrease shall be recognised in profit or loss. However, the net revaluation decrease shall be debited directly to equity under the heading of 'Revaluation Reserve' to the extent of any credit balance existing in any revaluation reserve in respect of the same class of asset. Revaluation increases and revaluation decreases relating to individual assets within a class of infrastructure, property, plant and equipment shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

Council is to ensure that all revaluations are finalised well before balance date to allow for comprehensive checking by finance and engineering staff as well as audit of the revaluation prior to 30 June.

Council will perform an annual assessment of fair value (between comprehensive revaluations) and document reasons why Council concluded that carrying value was not materially different from fair value or increase the asset class according to an appropriate indexation measure.

## **Depreciation**

The method and rate of depreciation will be based on accepted patterns of useful life by Local Government, the experience of localised conditions to assess any environmental impact on those assets, and the verification from an independent valuer.

Council uses the straight line method to depreciate tangible non-current assets (other than parcels of land, which are not subject to depreciation).

The Straight-line Depreciation approach is where consumption of benefits is in a uniform manner over the useful life of the asset, calculated on asset cost (less residual value if applicable).

Asset depreciation and amortisation parameters, useful lives, asset condition (used to assess remaining useful lives) are to be reviewed annually to ensure that they are representative of

current conditions and expectations at the end of each financial year. Remaining useful life of an asset should be reassessed whenever a major addition or any significant partial disposal is processed.

### **Residual Values of Non-current Assets**

The residual value of buildings, 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 buildings, 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 assets.

### **Impairment**

Where the carrying amount of an asset is found to exceed the recoverable amount the asset is to be written down to the recoverable amount and an impairment loss recorded. The 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 decreases in accordance with AASB 136 Impairment of Assets to the extent it reverses any previous revaluation decrement.

### **Works in Progress**

Work in progress balances are to be reviewed monthly to ensure completed projects are brought to account as assets within a timely manner and any operational costs are expensed accordingly.

### **Indexation**

Council's Water and Sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Crown Lands and Water (CLAW). All other classes (other than those stated at their Fair Value approximated by depreciated historical cost and land) will be indexed at each reporting period using ABS price indices and/or other similar measures.

### **Land Under Roads**

As at 1 July 2008, Council elected not to recognise any values for Land Under Roads acquired before the commencement of AASB 1051. Land Under Roads acquired after 1 July 2008 is recognised in accordance with AASB 116.

The valuation methodology to be used by Council will be the "englobo" method.

### **Crown Reserves**

Crown Reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets.

## Rural Fire Service Assets

Rural Fire Service Assets – Under Section 119 of the Rural Fires Act 1997, “all fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed”.

At present the accounting for such fire fighting equipment is not treated in a consistent manner across all Councils. Nambucca Shire Council will continue to account for these assets within the financial statements.

### Land held for sale

Land held for sale will be accounted for in the Land Development Register.

## 5.0 History

New Policy.

<b>Department:</b>	<b>Corporate Services</b>	<b>Last Reviewed</b>	<b>Resolution Number</b>
<b>Policy Category</b>	Organisational Policy		
<b>Endorsed By:</b>	General Manager		
<b>Approval Authority:</b>	General Manager		
<b>Policy Owner:</b>	Finance		
<b>Contact Officer:</b>	CFO		
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