Fixed Assets – Recognition and Valuation

COUNCIL POLICY NO. 134

1. POLICY PURPOSE

To apply a systematic approach to the recognition and financial valuations of fixed assets, in accordance with relevant Australian Accounting Standards and other State Government requirements.

2. SCOPE

This policy applies to the recognition and financial valuation of fixed assets. It does not apply to insurance valuations, 'Held for Sale' valuations or intangible assets.

3. DEFINITIONS

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 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 balance sheet for reporting in the Annual Report; for example, the Roads Asset Class includes Asset Components such as surface, pavement, earthworks and formation.

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 the case with developer and other contributed assets), the cost is its fair value as at the date of acquisition.

Deemed Cost
An amount used as a surrogate for cost or depreciated cost at a given date.

Depreciation Expense
The systematic allocation of the depreciable amount of an asset over its useful life. A systematic charge against revenue made for the purpose of allocating the depreciable amount of a depreciable asset over its useful life; also known as Annual Depreciation or Depreciation Charge.

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 Asset
A physical resource controlled by Council and from which future economic benefits are expected to flow to the entity, which is not expected to be fully consumed, realised, sold or otherwise disposed of within one financial year.

Impairment
The amount by which the carrying amount of an asset exceeds its recoverable amount.

Indexation
A method of valuation whereby indices are applied to the cost value of a class of assets to arrive at the current cost of the class of assets.

Materiality
A concept relating to the importance/significance of an amount, transaction, or discrepancy and provides a threshold or cut-off point.

Revaluation
The act of recognising a reassessment of values of non-current assets at a particular date.

Valuation
The process of determining the worth of an asset or liability. Different valuation methods may be appropriate in different circumstances.

4. PROCESS

It is a requirement that Councils complete financial valuations of their fixed assets, as governed by Australian Accounting Standards and State Government frameworks. A primary outcome of this requirement is that Council's Balance Sheet will reflect the Fair Value of Council's portfolio of non-current assets.

Knowledge of current asset values is essential for the efficient and effective management of assets. Current asset valuation information can assist in making decisions regarding the allocation of resources to those assets.

Application of this policy will drive consistent processes to produce comparable valuations from year to year, 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 to be subsequently measured at either Fair Value or Cost. Whichever valuation basis is selected, Council shall apply that approach to an entire Asset Class.

For fixed 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, office furniture and vehicles 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 fixed assets (i.e. depreciation expense) approximates the expected long term average costs to renew or replace those assets. This annual depreciation expense is accounted for via Council's Balance Sheet and the Comprehensive Income Statement.

5. COST OF ACQUISITION

When acquired, fixed assets are measured at cost. Cost is the amount of cash paid and/or the fair value of other consideration given up in exchange for the asset. Cost of acquisition includes costs associated with activities necessary to prepare the asset for its intended use. Where assets are provided at no cost the 'deemed cost' of the asset is recognised as the fair value for the assets received.

6. MEASUREMENT MODELS

The Accounting standards require that Council shall choose one of two measurement models, either the 'Cost Model' or the 'Revaluation Model', for valuing each specific asset class. The valuation models for Council's asset classes are specified in Appendix A – Condition and Revaluation Schedule.

Cost Model (historical cost): upon initial recognition assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. In subsequent years the assets will be required to utilise the revaluation model below.

Revaluation Model: the Fair Value of an asset is the best estimate of the price reasonably obtainable in the market at the time of valuation. Where this cannot be determined as in the case for infrastructure assets, depreciated replacement cost is used. This is the current value to replace the assets based on unit cost of an identical asset less deductions for accumulated depreciation, physical deterioration and all relevant forms of obsolescence.

Financial reporting obligations require valuations of non-current assets in accordance with relevant Australian Accounting Standards and other State Government requirements. Asset Management requires valuations of non-current assets for renewal planning purposes. For asset management, renewal planning requires a reasonable estimate of actual costs to replace an asset at the end of its useful life. The cost to actually rebuild or replace an asset includes the cost for demolition of the old asset and traffic management costs as they form part of the real cost to Council to renew its assets and these costs are referred to as 'Brownfield' unit rates.

Council utilises independent condition assessment experts to determine the condition of roads, footpaths and kerbs on a regular basis (approximately every three years). This condition data is then used to determine the depreciated replacement cost using pre-calibrated degradation curves when known or straight line degradation to inform both the used and useful remaining life of a particular asset. Brownfield unit rates are used because in the majority of instances Council will be renewing existing assets rather than constructing new ones.

7. CAPITALISATION THRESHOLDS

The cost of acquiring an asset is recorded in the balance sheet. This is called the asset's initial 'carrying' value (sometimes called its 'book' value). However, not all assets acquired need to be recorded in the balance sheet. If an individual asset or component of an asset is not 'material', the cost of acquisition may be shown as an expense in the period it was incurred. Under Australian Accounting Standard AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, the test for asset recognition thresholds is whether, for a given threshold, the application of a lower value threshold would produce a materially different financial position or operating result. After considering this test, the following recognition thresholds have been determined:

Asset Class	**Threshold**	**Asset Class**	**Threshold**
Land	$2,000	Sealed pavements	$10,000
Land under roads*	$0	Unsealed pavements	$10,000
Land improvements	$5,000	Sealed roads – formation	$10,000
Buildings	$5,000	Unsealed roads – formation	$10,000
Building improvements	$5,000	Sealed surfaces	$10,000
Plant, machinery and equipment	$2,000	Drainage	$10,000
Fixtures, fittings and furniture	$2,000	Footpaths and cycleways	$5,000
IT and telecommunications	$2,000	Kerb and channel	$5,000
Library collection	$1,000	Bridges	$5,000
Waste management	$5,000	Aerodromes	$5,000
Recreational, leisure and community facilities			$5,000
Parks, open spaces and streetscapes			$5,000

* Council only recognises freehold land under roads that is owned by Council.

8. DEPRECIATION

Buildings, infrastructure, plant and machinery and other assets having limited useful lives are systematically depreciated over their useful lives to the Council, in a manner which reflects consumption of the service potential embodied in those assets. Depreciation rates and methods are reviewed annually.

Depreciation rates are determined by:
Infrastructure: useful life of asset components and residual values of roads, footpaths, bridges, kerb and channel are determined by independent condition assessments. All infrastructure assets are depreciated from the start of the financial year after the date that the assets are ready for use.

Buildings and property: useful life of asset components and residual values provided by Council's Independent Valuer. Depreciation commences from the start of the financial year after the date that the assets are ready for use.

Plant & Machinery, IT and Telecommunications: useful life of asset components and residual values provided by Council's Chief Financial Officer. Depreciation commences from the date of purchase.

Furniture & Equipment and Library Collection: useful life of asset components and residual values provided by Council's Chief Financial Officer. Depreciation commences from the start of the financial year after the date that the assets are ready for use.

9. FREQUENCY AND DELIVERY OF VALUATION

Appendix A – Condition and Revaluation Schedule identifies the planned frequency at which Council will undertake revaluations and associated condition assessments for the various asset classes.

The guiding principle for revaluation frequency is that the carrying amount at the end of the reporting period of an asset class does not differ materially from the fair value of that class of assets at that same date. The standards stipulate that if any item of an asset class is revalued, then the entire class to which that item belongs must be revalued.

In between formal valuations, an annual review of Council owned or controlled fixed asset classes is to be conducted as at 30 June. The following actions are to be taken to determine if indexation or impairment of assets is required:

Land assets: request a statement of land valuation movements from Council's contract valuers.

Infrastructure assets: request a review of unit price movements for infrastructure assets from Council's Manager Assets and Design.

Building and Other Structure assets: obtain a building price index movement.

In addition to the annual review for impairment, there are occasions when an impairment assessment will be required as soon as possible e.g. after a natural disaster involving a storm, flood or fire, which has resulted in damage to infrastructure assets.

The results from the above actions and the annual review are assessed in relation to the date of the last revaluation using a materiality threshold of 10% at the asset class level. If deemed material, indexation or impairment of asset classes is to be conducted.

10. POLICY REVIEW

Council will review this policy as required but always within two years after a general election of the Council.

At the time it was developed, this policy was compliant with the Victorian Charter of Human Rights and Responsibilities Act 2006.

11. FURTHER INFORMATION

Members of the public may inspect all Council policies at Gannawarra Shire Council's Kerang and Cohuna Offices, or online at www.gsc.vic.gov.au.

Any enquiries in relation to this policy should be directed to the Chief Executive Officer on (03) 5450 9333

Appendix A – Condition and Revaluation Schedule

Asset Group	Asset Class	Valuation Method		Condition Assessment	Revaluation Frequency
		Type	Source	% Inspected	
Property	Land	MV	External	100	4-5 years
	Land Improvements	MV	External	100	4-5 years
	Buildings	MV	External	100	4-5 years
	Building Improvements	MV	External	100	4-5 years
Plant & Equipment	Plant, machinery and equipment	HC	N/A		
	Fixtures, fittings and furniture	HC	N/A		
	IT and telecommunications	HC	N/A		
	Library books	HC	N/A		
Infrastructure	Roads	DRC	Internal	80	3 - 4 years
	Bridges	DRC	Internal	100	3 - 4 years
	Footpaths and cycleways	DRC	Internal	100	3 - 4 years
	Drainage	DRC	Internal	15	3 - 4 years
	Road kerb and channel	DRC	Internal	100	3 - 4 years
	Recreational, leisure and community facilities	DRC	External	100	4-5 years
	Waste management	DRC	External	100	4-5 years
	Parks, open spaces and streetscapes	DRC	External	100	4-5 years
	Aerodromes	DRC	External	100	4-5 years
	Other infrastucture	DRC	Internal		3 - 4 years

Valuation Method Type Acronym Definitions

MV = Market Value

HC = Historical Cost

DRC = Depreciated Replacement Cost