Recognition of Assets Policy

Responsible Department: **Corporate Services**
Responsible Section: **Finance**
Responsible Officer: **Financial Services Manager**

Objective

The objective of this policy is to specify the processes to be followed when recognising, recording and valuing an Asset for formal inclusion in Council's asset register.

Scope

This policy applies to all new/upgraded Assets, except for Property, Plant and Equipment classified as being held for disposal.

Introduction

This policy aligns with Council's Asset Management Policy and sets out the definition, recognition and measurement requirements to provide guidance when considering the appropriate accounting treatment and associated procedures for recognition of Assets that may be classed as Property, Plant or Equipment in Council's Statement of Financial Position.

Policy

Accounting

Council's recognised Asset base can be broadly defined in accordance with the Australian Accounting Standards Board documentation 'AASB 116 Property, Plant and Equipment', as a tangible item that is held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and is expected to be used during more than one Reporting Period.

There are three elements to be satisfied for an Asset to be recognised by Council. These elements are:

1. Control;
2. Past transactions or events which gave rise to control; and
3. The existence of future economic benefits.

Council is deemed to 'control' a Property, Plant and Equipment Asset where it has the power (usually through a legally enforceable right) to obtain future economic benefits from the Asset and it can restrict the access of others to those benefits. The right of ownership over the Asset is not essential in determining control.

A Property, Plant and Equipment Asset must result from a 'past transaction or event'. The past transaction will usually be the purchase of the Asset; however other transactions or events such as donations may generate Assets.

The 'future economic benefit' of an Asset is the potential to contribute, directly or indirectly, to Council in the form of cash or cash equivalents. Future economic benefits may also include service potential, revenue from a future sale, cost savings or any other benefit resulting from the use of the Asset.

Sufficient certainty that future economic benefits will flow to Council is normally achieved when the risks and rewards of the Asset have passed to Council. This usually occurs when the Asset is physically delivered.

Non-Council Assets

Council may have under its control Assets which are not Council property. These can arise through projects or agreements entered into between Council and a community group or Government Department. Each agreement should specify which Assets will remain the property of Council and which Assets are to be dispersed to another entity at the end of the project or agreement.

Assets acquired for a specific project that will be returned to the project sponsor or community group at the end of the project shall be treated during the period of the project as if they were Council Assets. At the completion of the specific project, it will be the responsibility of the Contract Manager to advise Financial Services of the disposal requirements and comply with the disposal and write-off process detailed in this procedure.

Treatment of NSW Rural Fire Service (RFS) funded Assets

All bush fire assets funded by the Rural Fire Service are to be recognised in asset registers at nil value. Council's reasoning for this determination include:

- All bush fire assets are funded by the NSW RFS. Council makes an annual contribution to the cost of providing rural fire protection to the shire, but does not contribute directly to the cost of individual assets acquired;
- The assets, while under Council's care, are ultimately controlled by the RFS;
- Proceeds from the disposal of assets are returned to the RFS;
- Including the bush fire asset values on Council's Balance Sheet creates an annual depreciation expense on the Income Statement. This depreciation cost is not justified if Council has no control over the life cycle management of the assets.

While Council will not be including values of bush fire assets in asset registers, it is still important that these assets are recognised to acknowledge their existence and inclusion for insurance purposes.

Asset Classes and Recognition Thresholds

A 'Non-Current' Asset that meets the documented recognition requirements will only be recognised if:

- It is probable that the expected future economic benefits attributable to the Asset will flow to Council;
- The cost of the Asset can be measured reliably; and
- The cost exceeds the Assets recognition threshold for that Asset Class.

Council controls a large volume of low value items that satisfy the asset recognition criteria. Administration for all of these Assets would result in significant costs for limited benefit. To minimise these administrative costs Council adopts an asset recognition threshold for each Asset Class.

The Asset Classes and associated recognition thresholds of Councils recognised Assets are:

ASSET CLASS	TRESHOLD
Buildings	$10,000
Infrastructure (Transport, Water, Sewer, Stormwater)	$10,000
Plant and Equipment	$5,000
Office Equipment	$5,000
Furniture & Fittings	$5,000
Land	Nil

Land Improvements	$5,000
Cultural (Art Collection, Heritage)	$5,000
Other Structures	$10,000

Measurement at Recognition

A Property, Plant and Equipment Asset that qualifies for recognition shall be measured initially at cost. Where an Asset is acquired at no cost or for a nominal cost (eg. donated), the cost will be its Fair Value as at the date of acquisition.

The cost of a Property, Plant and Equipment Asset comprises:

- The purchase price, including duties and non-refundable taxes, after deducting discounts and rebates;
- Any costs directly attributable in bringing the Asset in and ready for use; and
- Costs associated to dismantling and removing the item and restoring the location site.

Examples of expenses usually included in the cost base of a Property, Plant and Equipment Asset include:

- Professional fees/costs directly attributable to locating/delivering the Asset for operations;
- Upgrade/New – Costs for improving the Asset beyond the original service potential;
- Site preparation costs directly attributable to preparing the site for installation of the new Asset; and
- Employee expenses incurred in generating or acquiring the Asset.

General administration and other indirect/overhead costs included in the acquisition are not included in the purchase price of the Asset.

All acquisitions of Property, Plant and Equipment Assets are recorded in Council's Asset register as a Council Asset and subsequently disclosed in the Statement of Financial Position.

Work in progress Assets will only be capitalised to the appropriate Asset Class when the Asset is in a condition ready for use. Work in progress will be reconciled regularly to ensure timely capitalisation of Assets is achieved.

In accordance with 'AASB 117 Leases', Assets acquired under finance leases are initially recognised at an amount equal to the fair value of the Asset, or if lower, the present value of the minimum lease payments.

Measurement after recognition

Revaluations will be performed on an entire Asset Class and with sufficient regularity (at least once every five years) 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.

Revaluations will be performed in accordance with 'AASB 13 Fair Value Measurement'. Through this process each Asset's Useful Life and Residual Value is reviewed and adjusted, if appropriate, at the end of each Reporting Period. Council may engage the services of an independent and appropriately qualified Registered Valuer to assist in this process.

Costs incurred subsequent to an item of Property, Plant and Equipment first having been put into use or held ready for use, will be added to the Carrying Amount of that Asset and depreciated providing those subsequent costs meet the recognition criteria detailed within this document.

Examples of subsequent costs and their usual accounting treatment include:

SUBSEQUENT COST	TREATMENT	RATIONALE
Repairs & Maintenance	Expense	Costs not meeting recognition criteria.

Servicing (labour/parts/etc.)	Expense	Costs not meeting recognition criteria.
Overhaul/Refurbishment	Capitalise	Extends useful life so recognised as capitalisation.

When an item of Property, Plant and Equipment is revalued, the Carrying Amount of that Asset is adjusted to the Revalued Amount. Accounting treatment for revaluation increase/decrease is summarised below:

RESERVE STATUS	REVALUATION	ACCOUNTING TREATMENT
No Existing Reserve	Increase	Recognise in other comprehensive income and create revaluation reserve.
Existing Reserve	Increase	Recognised other comprehensive income and revaluation reserve. If increase reverses a previous decrease, recognise in profit/loss.
No Existing Reserve	Decrease	Recognise in profit/loss.
Sufficient Balance	Decrease	Recognise in other comprehensive income and decrease revaluation reserve.
Insufficient Balance	Decrease	Recognise in other comprehensive income and decrease revaluation reserve to existing balance. Recognise in profit/loss.

Revaluation increases and decreases within an Asset Class shall be offset and disclosed in aggregate in the financial statements.

Depreciation

Where Property, Plant and Equipment Assets have a limited useful life, they will be depreciated; with the exception of land, heritage or art collections and works in progress.

Depreciation commences from the date that the Property, Plant and Equipment Asset is first put into use or held ready for use. Depreciation continues to be recognised as long as the Asset's Carrying Amount exceeds its Residual Value. Depreciation ceases at the earlier of the date when as Asset is reclassified as being held for sale or the date that the Asset is written off.

The Depreciation charge for each period will be recognised in profit or loss.

Depreciation reflects the pattern in which the Asset's future economic benefits are expected to be consumed by Council. Council uses the straight line method based on Useful Lives, reflecting the Assets' remaining service potential.

The Residual Values and Useful Lives of Property, Plant and Equipment Assets are reviewed when the revaluation is performed. As a result, the Depreciation rate may change each valuation cycle.

The Residual Values and Useful Lives for each Asset Class are reviewed and adjusted, if appropriate, at the end of each Reporting Period.

The consequential change in the Depreciation rate will be accounted for as a change in accounting estimate in accordance with ‘AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors’.

Disposal and Write-off

Council will write-off the Carrying Amount of an item of property, plant and equipment when:

- An asset is disposed of; or
- When no future economic benefits are expected from its use or disposal.

The disposal of Assets may occur for a variety of reasons which may include:

- The asset becomes redundant due to changed procedures, equipment, functions or usage patterns;
- The asset no longer complies with occupational health and safety standards;

- The asset is damaged beyond economic repair;
- The asset has been stolen or lost; or
- The asset has reached its optimum selling time to maximise returns.

Disposal of a Property, Plant and Equipment Asset may occur in a variety of ways, depending on the expected value to be realised. Please refer to Council's *Disposal of Assets Policy* for the value triggers that determine the appropriate method of disposal.

All disposals will be recorded in accordance with the correct Financial Services process and approved by the Financial Services Manager prior to effecting the disposal and recording in Council's Asset register.

A gain or loss arising from the write-off of an item of Property, Plant and Equipment shall be included in profit or loss. This gain or loss is calculated as the difference between the Net Disposal Proceeds, if any, and the Carrying Amount of the Asset, plus any costs incurred in relation to the disposal.

Impairment

In accordance with AASB 136 – Impairment of Assets, Council must assess whether there are any indications that any of its assets may be impaired. Should signs of impairment exist, Council is then required to ensure that the Assets Carrying Amount within its books is not greater than the assets "recoverable amount", thus ensuring that the Asset's value is not overstated.

Signs that an asset may be impaired include:

- Evidence is available of obsolescence or physical damage of an asset;
- Significant changes, with an adverse effect, have taken place during the period (or are expected to take place in the near future) regarding the nature or manner in which an asset is used or is expected to be used.
- These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date; or
- Evidence is available from internal reporting that indicates that the economic performance of an asset is (or will be) worse than expected.

In summary, if an asset is (i) no longer functioning to its capabilities or is (ii) no longer being used (by Council or Ratepayers) to the level that was anticipated or to levels of use that have previously occurred, then this could indicate that the asset may be impaired (in accordance with AASB 136), and any such identified assets will then require a closer review by Finance for Year End reporting purposes.

Stocktake

A stocktake (Asset verification) of Councils Property, Plant and Equipment Assets will be conducted with regularity conducive to the risk associated with the likelihood of misappropriation in that Asset Class.

The primary purpose of a stocktake is to confirm the existence and location of Assets. The stocktake process may also be used to assess the condition of an Asset for potential impairment, disposal or write-off.

Managers should be aware of the requirements for Asset stocktaking and take this into consideration when approving the use of Council Property, Plant and Equipment Assets for approved activity; where such an arrangement has not already been documented. Where applicable, the Manager will advise Financial Services in the required format of all relevant details to enable adequate recording of Asset information.

Definitions

Accounting – Measurement, processing and communication of financial information.

Asset – A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. Infrastructure assets are a sub-class of property, plant and equipment which are non-current assets with a life greater than 12 months and enable services to be provided.

Asset Class – A group of assets having a similar nature or function in the operations of an entity, and which, for purposes of disclosure, is shown as a single item without supplementary disclosure.

Depreciation – The systematic allocation of the depreciable amount (service potential) of an asset over its useful life.

Disposal – Actions necessary to decommission and dispose of assets that are no longer required.

Impairment – Impairment is an accounting term used to describe the situation where a fixed asset's carrying amount is greater than its recoverable amount.

Recognition Threshold – Dollar amount below which expenditure is treated as recurrent.

Stocktake – Physical verification of the quantities and condition of items held in an inventory, as a basis for accurate inventory audit and valuation.

Write-Off – A write off is a reduction in the recorded amount of an asset. A write off occurs upon the realisation that an asset no longer can be converted into cash, can provide no further use to a business, or has no market value.

Document History

VERSION	DATE	AUTHOR	COMMENTS