



Asset management and accounting policy

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| Classification | Policy |
| Strategic reference | Goal 4: Governance and organisational culture |
| Relevant legislation | <i>Local Government Act 1999</i> |
| Relevant documents | Long Term Financial Plan Asset Management Plans |
| Responsible officer | Manager Corporate Services |
| Date adopted | February 2024 |
| Next review date | February 2027 |

1. Purpose

The purpose of this policy is to provide guidance, clarity and consistency regarding the treatment of capital expenditure, which will provide for greater understanding and accuracy of Council's capital requirements and depreciation expenses. The existence of this policy will assist to ensure there is a distinction made between expenditure on long-lived assets and expenditure on goods and services for immediate consumption. This is critically important in determining the cost of providing services.

This policy covers both the acquisition and disposal of assets to ensure accordance with Section 49 (a1) of the Act;

- 1.2.1 Obtaining value in the expenditure of public money; and
- 1.2.2 Providing for ethical and fair treatment of participants; and
- 1.2.3 Ensuring probity, accountability and transparency in all disposal processes.

This policy does not cover land sold by council for the non-payment of rates or the disposal of goods which are not owned by Council, such as abandoned vehicles.

2. Objective

To ensure adequate provision is made for the long-term replacement of major assets by:

- a. Ensuring that Council's services and infrastructure are provided in a sustainable manner, with the appropriate levels of service to resident, visitors and the environment.
- b. Safeguarding Council assets including physical assets and employees by implementing appropriate asset management strategies and appropriate financial resources for those assets.
- c. Creating an environment where all employees play an integral part in overall management of Councils assets, including by creating and sustaining an asset management awareness throughout the organisation and providing training and development.
- d. Meeting legislative requirements for asset management.
- e. Ensuring resources and operational capabilities are identified and responsibility for asset management is allocated.
- f. Demonstrating transparent and responsible asset management processes that align with best practice.

3. Definitions

"Asset" – means any physical item that the Council owns and that has at any time been treated pursuant to the Australian Accounting Standards as an 'asset', and includes major and minor plant and equipment. It does not include financial investments or finance related activities

“Land” – includes community land, vacant land, operational land, road reserves, any legal interest in land, and any buildings on that land.

“Major plant and equipment” – includes all major machinery and equipment owned by the Council. It includes all trucks, graders, other operating machinery and major plant items.

“Minor plant and equipment” – includes all minor plant and equipment owned by Council. It includes all loose tools, store items, furniture, second hand items removed from major plant and equipment (such as air-conditioners, bricks and pavers) and surplus bulk items (such as sand and gravel).

“Capital expenditure” - Capital expenditure includes two categories. Costs incurred in the creation of a new asset - including design costs, planning and development compliance costs, and construction costs. Costs incurred for replacement and repair of an existing asset - these costs can be considered capital when the replacement or repair results in an extension of the useful life of the asset.

“Carrying value” - The carrying value of an asset is the value of the asset held on Council’s balance sheet. It can be based on the cost of installation of a new asset or can be based on an independently revalued replacement cost for an existing asset.

“Cost” - the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

“Depreciation” - Depreciation is the mechanism by which the carrying value of an asset is expensed over its useful life. It represents the amount by which Council’s asset stock is being consumed annually.

“Maintenance” - Maintenance of an asset is periodic expenditure required to ensure that the asset lasts as long as it is expected to last and that it provides, and continues to provide, future economic benefits or expenditure on non-current assets that do not meet the capitalisation criteria. Maintenance costs are expensed annually as they are incurred.

“Residual value” - The residual value of an asset is the estimated amount that an entity would currently obtain from the disposal of an 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” - The useful life is, the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

4. Policy statement

Asset management is the term used to describe the process by which Council manages physical assets to meet current and future levels of service. Asset management is a systematic, structured process covering the whole of life of an asset. The underlying assumption is that assets exist to support program delivery. The goal is to meet a required level of service in the most cost effective manner for present and future customers.

5. Policy practice

There are three key phases in the cycle of the management of Councils’ assets as outlined below:

1. Acquisition:

In this phase a council undertakes activities such as: identification of needs; planning; consideration of costs and expected economic life; assessment of requirements; feasibility study; acquisition/ construction; and asset identification and recording.

2. Ownership:

In this phase a council undertakes: planned maintenance; unplanned maintenance; maintenance of asset records; and condition assessment (to review maintenance needs).

3. Disposal:

In this phase a council undertakes activities such as: determination of method of disposal; site rehabilitation (where applicable); and other environmental considerations (where applicable).

5.1 Decision making

Council will consider a number of factors when making any decisions impacting assets:

- Ensuring that the asset base is only increased with consideration of the impact on the ability to fund future maintenance and rehabilitation;
- Non-replacement of those assets that are determined to be under-utilised, at the end of their useful lives, subject to necessary consultation with the community and determining the subsequent impact on the community;
- Adequate funding to ensure assets are maintained at least in their current condition;
- Integrated management linking asset management strategy, policy and procedures to other Council policies, strategies and procedures;
- Utilisation of technological advances relevant to asset management;
- An integrated planning approach which ensures manager roles are understood and documented and that communication procedures are in place which ensure assets are planned and delivered in a sustainable manner;
- Implementation of best practice;
- Improving its maintenance and rehabilitation practices;
- Maintaining and rehabilitating its existing assets in a manner which is acceptable to the community in terms of financial burden, safety, quality, impact on the environment, meeting needs and Council's ability to fund those works;
- Maximising resources to achieve the best outcome for the community;
- Regularly consulting and surveying the community to determine whether its needs are being satisfied;
- Preparation and review of detailed asset management plans for all major classes of assets and using these plans to assist in determining the priorities for capital and maintenance expenditure;
- Monitoring its performance in accordance with measures developed as part of its asset management plans; and
- Maximising use of external grant opportunities for new and upgraded infrastructure subject to the ability to fund future maintenance.

5.2 Asset management plans

Council will prepare and maintain asset management plans for the following classes of assets:

- Buildings;
- Infrastructure;
- Plant and equipment

5.3 Recognition of an asset

An asset is recognised in the balance sheet when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

An asset that qualifies for recognition will be initially recorded at cost at the date of acquisition, including costs directly attributable to bringing the asset to the location and condition ready for operation by the Council. Where an asset is acquired at no or minimal cost, it will be recognised at its fair value as at the date of acquisition.

Information is material if its omission or misstatement could influence decisions of users on the basis of financial statements. In the context of materiality it is not necessary to recognise every non-current asset in the balance sheet. The setting of threshold levels provides a balance in efficiency for administrative effort associated with maintaining and depreciating individual asset records.

Assets with an economic life in excess of one year will be capitalised where the cost of acquisition exceeds materiality thresholds set by Council for each type of asset. Material thresholds for capitalisation of assets are shown in the following table.

Table 1: Material thresholds for capitalisation of assets

| | Maintenance | Capital |
|---|---|--|
| Fleet and plant assets | Expenditure <\$5,000 for individual items or items that cannot be easily grouped | Expenditure >\$5,000 for individual assets, or assets that can be easily grouped |
| Sealed roads and car parks | Minor road patching Shoulder grading Line marking Road cleaning & sweeping General kerb maintenance | Road patching other than minor works >\$5,000 New road construction Resealing >\$5,000 Reconstruction >\$5,000 Repairs to kerb & channel >\$5,000 New kerb construction |
| Unsealed roads | Grading Sweeping Vegetation clearing | Other treatments >\$5,000 |
| Information technology | Expenditure <\$5,000 for individual assets or assets that cannot be easily grouped | Expenditure >\$5,000 for individual assets, or assets that can be easily grouped |
| Stormwater and community wastewater management systems | Minor repairs | Pipe and structure replacement >\$5,000 New pipes and structures New wetlands Purchase or replacement of pump and bore equipment >\$5,000 |

| | Maintenance | Capital |
|--|---|---|
| Office furniture and equipment | Purchases <\$5,000 | Expenditure >\$5,000 for individual item or items which can be grouped |
| Signs | Repairs to existing individual signs & posts | New signs and/or posts Replacement of existing signs >\$5,000 |
| Footpaths | Footpath maintenance (pothole repair, joint grinding, segment paving resetting) <\$5,000 | Footpath replacement New footpath construction |
| Research, design & project management costs | All research, design & project management costs incurred on projects which have not proceeded | Subject to the tests of Australian Accounting Standards related to impairment of assets |
| Traffic calming devices | All line marking Any maintenance to existing devices <\$5,000 | Any new or complete replacement of kerb, fence and component of the device New traffic islands |
| Irrigation | Maintenance to existing irrigation equipment <\$5,000 | New irrigation equipment Major repairs/replacement of irrigation equipment >\$5,000 |
| Land and reserves | Maintenance of landscaping structures Renewal of mulch and garden beds Plants and Trees Maintenance to existing park furniture | New pavers and concrete paths New irrigation New park furniture Replacement of existing park furniture |
| Sporting ovals and playing courts | Line marking Lawn mowing | Major earthworks Court construction and resurfacing Light tower construction and replacement |
| Playground equipment | Maintenance to existing playground equipment | New playground equipment Repairs/replacement of playground equipment |
| Buildings | All maintenance of building components | Any structural addition to the buildings >\$5,000 Repairs/renewal of building components |

5.4 Depreciation of non-current assets

The Australian Accounting Standard (AASB 116) relates to property, plant and equipment, states that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the roof, floor, envelope, electrical, plumbing and air-conditioning of Council buildings, as each of these components may be significant in cost and have different useful lives.

Depreciation is calculated by identifying the total cost of an asset, taking from this any residual value the asset may have at the end of its useful life; and then allocating the remaining amount over the useful life of the asset, reflecting the pattern in which the assets future economic benefits are expected to be consumed.

The useful life of an asset shall be reviewed at least at the end of each annual reporting period and if a change in the assets useful life is expected, the Council shall disclose the nature and amount of any change that has an effect in the current period or is expected to have an effect in future periods.

The Australian Accounting Standards (AASB 116) provide for an asset's depreciation period. Depreciation of an asset will begin from the time the asset is available and ready for its intended purpose until the end of the assets useful life; or when no future economic benefits are expected from its use; or upon disposal. In the case of donated assets, depreciation will begin from the time of handover to Council of those assets.

The Australian Accounting Standards (AASB 116) also provide that the depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Council. These methods include:

The Age Based Method– Based on the assumption that the economic benefits are generally consumed in a consistent manner throughout the useful life of the asset. This results in a constant depreciation charge over the useful life if the assets residual value does not change.

The Condition Based Method– Based generally on the regular assessment of the assets condition. The resulting depreciation charge is calculated on the change to the cost to renew the asset from one year to the next. (The Australian Accounting Standards Board concluded that this method of depreciation does not comply with AASB 116 – Property, Plant and Equipment and shall not be adopted by an entity).

Council uses the condition based method for roads, kerbs and footpaths. Straight line depreciation is used for all other assets, on the basis that the economic benefits provided by the assets (the service provided), are generally used in a consistent manner throughout the useful life of the asset.

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the economic benefits provided by those assets. Land is not a depreciable asset. The depreciation method applied shall be the straight line basis. Depreciation rates shall be reviewed each year.

5.5 Useful life of Council assets

The useful life of Council owned assets is shown in the following table.

Table 2: Useful life of Council assets

| Road infrastructure | Useful life (years) |
|--------------------------------------|----------------------------|
| Spray seal | 15 – 25 |
| Sheeted | 35 |
| Pavement | 20 – 50 |
| Kerbing | 50 – 60 |
| Footpath - concrete | 50 – 60 |
| Footpath - spray seal | 25 – 35 |
| Footpath - gravel | 15 - 25 |
| Plant and equipment | Useful life (years) |
| Office equipment | 5 - 10 |
| Office furniture | 10 - 20 |
| Vehicle and road making equipment | 5 - 8 |
| Other plant and equipment | 5 - 20 |
| Building and other structures | Useful life (years) |
| Buildings - masonry | 50 - 100 |
| Buildings - other constructions | 20 - 40 |
| CWMS | Useful life (years) |
| CWMS – pipes | 70 - 80 |
| CWMS - mechanical and electrical | 25 |
| CWMS - other | 50 |
| Water supply | Useful life (years) |
| Water supply - pipes | 65 - 70 |
| Water supply - pumps and meters | 15 - 25 |
| Stormwater | Useful life (years) |
| Stormwater - pipes | 65 - 70 |
| Stormwater – other | 25 - 75 |
| Other assets | Useful life (years) |
| Library books | 10 – 15 |

5.6 Revaluations

When an asset is recognised, its value can be recognised either by the cost model or by the revaluation model. The cost model recognises the original cost of an asset less any accumulated depreciation and impairment losses. The revaluation model recognises assets at their fair value only if that can be measured reliably. If an asset is revalued, its value is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluation of assets will be undertaken with sufficient regularity to ensure the carrying amount of the asset does not differ materially. Council will undertake revaluations of entire asset classes at a frequency of at least once every five years, but dependant on the asset class more frequent revaluations may be required.

Assets will be revalued annually by at least applying a suitable price escalator with a more rigorous review of asset valuations (conducted on a 'fair value' accounting basis) occurring at an interval of no more than five years.

5.7 Impairment

Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

5.8 Land held for resale

Land held for development and/or resale is valued at the lower of cost and net realisable value. Costs include:

- The cost of acquisition, development and interest incurred on financing of that land during its development
- Interest and other holding charges incurred after development is complete are recognised immediately as expenses.

Realisable value cost includes the cost of acquisition and development.

5.9 Land under roads

For reporting periods commencing on or after 1 July 2008, Australian Accounting Standard (AASB1051 - Land under roads) came into effect. In accordance with this Standard, Council has elected not to recognise values for land under roads held as at 30 June 2008. This is because it has determined that there is no reliable measurement; an essential criteria for asset recognition.

From 1 July 2008 onwards all newly acquired land under roads must be recognised in accordance with Australian Accounting Standard (AASB116 –Property, Plant and Equipment) which states that an asset should only be recognised if, and only if;

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

A reliable method has been unable to be determined; hence land under roads will not be recognised in reporting period from 1 July 2008.

5.10 Asset register

The asset register for infrastructure, property and plant will maintain details of fair/replacement/historical value, accumulated depreciation and carrying amount for each asset and asset class, along with historical information relating to revaluation and impairment.

Depreciation will be calculated using Council's asset management software and applied on a monthly basis. Asset additions and disposals will be recorded and reconciled at least quarterly.

Asset registers will be used to ensure that Council has adequate security arrangements and insurance cover to ensure fixed assets are protected from destruction, deterioration, theft, fraudulent or illegal use.

5.11 Asset acquisition

Council constructs and/or manages the construction of infrastructure assets. The asset cost will include the cost of all materials used in construction, supervision, direct labour and an appropriate proportion of variable and fixed overheads.

Council receives infrastructure assets such as roads, kerbing, footpaths and stormwater drainage from developers following the issue of a certificate of practical completion, usually after a period of one year following its construction. Council treats these as new assets from the date of receipt, from when it commences the calculation and application of depreciation.

Assets which are not completed as at 30 June in any year will be shown in the balance sheet as work in progress rather than as infrastructure, property, plant and equipment. These assets may be recorded in the asset register as incomplete assets and will not attract depreciation until completion.

5.12 Asset disposal

When an asset is sold, its selling price often varies from the carrying amount in Council's balance sheet. The variation will be recorded in the Council's statement of comprehensive income as a gain or loss on disposal in accordance with AASB 116. If an asset is scrapped before it is fully depreciated, the carrying amount will represent a loss.

Council must have regard to the following principles in its disposal of assets

- Encouragement of open and effective competition
- An assessment of value for money must include consideration (where applicable):
 - The contribution to Council's long term financial plan and strategic plans
 - Any relevant direct and indirect benefits to Council, both tangible and intangible;
 - Efficiency and effectiveness

- The costs of various disposal methods
- Internal administration costs
- Obtaining value for money
 - Risk exposure; and
 - The value of any associated environmental benefits
- Ethical behaviour and fair dealing
 - Council is to behave with impartiality, fairness, independence, openness and integrity in all discussions and negotiations
- Probity, accountability, transparency and reporting
- Ensuring compliance with all relevant legislation.

6. Grievances

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer of the Council.

7. Policy review

The effectiveness of this policy will be reviewed every three years or as necessary.

8. Further information

This document is available on Council's website www.southernmallee.sa.gov.au and at the principal office of the Southern Mallee District Council at Day Street, Pinnaroo SA 5304.

A copy of this document may be purchased from Council.