



Purpose

The purpose of this policy is to establish principles regarding expenditure that is to be capitalized as well as documenting the accounting treatment for non-current assets in Council's fixed asset register.

This policy is aligned with the Accounting Standards, including AASB 116 Property, Plant and Equipment, which require a distinction to be made between expenditure that is consumed immediately in operations (or within one financial year) and expenditure on fixed assets that will provide service over more than one financial year.

This policy includes the accounting treatment of all Council's non-current assets.

Legislative Provisions

Council is required to prepare an annual report pursuant to Section 131 of the Local Government Act 1989 and Section 19 of Local Government (Planning and Reporting) Regulation 2014 following Local Government Model Financial Report that includes a schedule of Fixed Assets (Property, infrastructure, plant and equipment).

Capitalisation guidelines

Capitalisation of fixed assets is determined by a materiality threshold at which items of expenditure will be recognised as assets in Council's Balance Sheet.

The useful life of each asset class forms the basis of the calculation of annual depreciation charges and assessment of an asset's written down replacement value.

Expenditure is to be capitalised when:

- It is probable that the future economic benefits embodied in an asset will eventuate.
- The item of expenditure is in excess of the asset threshold (Refer Appendix 1)
- Where the value of individual assets fall below the asset threshold for capitalisation, but the assets form part of a network or asset group such as for park furniture on a reserve, consideration will be given to capitalising the individual asset based on whether the aggregate value of those assets exceeds the capitalisation threshold. Assets to be considered are to be referred to the Manager Finance for a determination.
- Acquisition costs of assets with less than these values will be treated as operating expenses.
- All capitalised expenditure is to be recorded in Council's fixed asset register. For each asset, a determination shall be made of its total life, remaining useful life, cost for accounting purposes and method of depreciation.
- Asset details shall be kept in Council's financial asset registers including One Financials, Conquest and Excel worksheets. Details supporting infrastructure assets are to be maintained in the relevant information management system (asset registers) and
- Maintained by the asset officer assigned with responsibility for that asset register.

Capitalisation Thresholds

Capitalisation of fixed assets is expected to apply where expenditure exceeds the following threshold limits and can be classified as renewal, upgrade, expansion or new. Expenditure identified as either operations or maintenance in nature is generally classified as operational and expensed (written off) in the year it is incurred.

The asset class is the basis for measurement of Councils fixed assets. The asset component is designed to provide further details in assessing the component parts of each asset class.

Appendix 1 provides a schedule of capitalisation thresholds and depreciation periods.

Depreciation and Asset Useful Life

Factors which may vary the estimated useful life i.e. affect the 'using up' of an asset are:

- Maintenance practices – the quantity and quality of both routine and periodic maintenance can affect the useful life.
- Original quality of construction.
- Types of use – heavy vehicles or light traffic affect the life of a road.
- Environment – e.g. reactive soils may lead to early deterioration.
- Technical obsolescence.

The estimate of useful life is based on evidence that is specifically drawn from the assessment of:

- Physical use.
- Wear and tear.
- Technical and physical obsolescence.
- Legal and other restrictions on the use of the asset.

Appendix 1 provides a schedule of capitalisation thresholds and depreciation periods.

Acquisition of Assets

Assets acquired by Council are be recorded based on acquisition or construction cost (fair value) plus costs incidental to acquisition including architect's fees, engineering fees and all other costs incurred in preparing the asset ready for use.

Revaluation of non-current Assets

All infrastructure assets, land and buildings shall be revalued on a regular basis such that the carrying values are not materially different from fair value where fair value is determined to be the current replacement cost of the asset less accumulated depreciation.

Subsequent to the initial recognition of assets and additions at cost, Appendix 2 of this policy documents the basis for measurement and the valuation process for each asset class. .

Where a class of non-current assets is measured on the fair value basis, revaluations are to be made with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at the reporting date.

Where an item of property, infrastructure, plant and equipment is re-valued, the entire class of property, infrastructure plant and equipment to which that asset belongs shall be re-valued. However, a class of assets may be re-valued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date

A revaluation increase is credited directly to equity (revaluation reserve), except to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in profit or loss.

A revaluation decrease shall be recognised in profit or loss, except to the extent of any credit balance existing in any revaluation reserve in respect of that same class of asset.

When an asset is re-valued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any property, infrastructure, plant and equipment asset held for resale shall be recorded at the lower of its carrying amount and fair value less costs to sell.

AASB 116 states after recognition, “an entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment”.

A class of property, infrastructure, plant and equipment is a grouping of assets of a similar nature and use in an entity’s operations. Examples of separate classes include motor vehicles, furniture and fixtures, office equipment.

An annual assessment is undertaken by Council of the replacement cost rates from Rawlinson's Australian Construction Handbook and Council contract rates for renewal, upgrade and construction of infrastructure works to ascertain any material movements in the fair value of Property, Infrastructure, Plant and Equipment at balance date. Movements in land and buildings is assessed by Councils contract valuers. Where material movements are identified an interim indexation will be applied and the calculation process disclosed in the financial statements.

Unit costs used for the revaluation of infrastructure assets are:

- To be "greenfield" rather than "brownfield" and
- In line with actual costs incurred in completion of current significant works within the municipality

Revaluation – Fair Value

“Where fair value is adopted for an asset class, an entity must:

- Revalue the entire class of assets to which an asset measured at fair value belongs; and
- Ensure that the subsequent carrying values of its revalued assets continue to approximate their fair values”.

Fair value is defined by AASB 13 Fair Value Measurement 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.

In certain circumstances, such as where fair value cannot be reliably determined using market-based evidence, fair value is consistent Council’s previous valuation notion of “depreciated replacement cost”. Depreciated replacement cost is “the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset”.

The *fair value* of an asset is determined by its highest and best use and will result in the highest value. Where a quoted market price in an active and liquid market is available, the price represents the best evidence of the assets *fair value*. Depreciated replacement cost (DRC) is the most common valuation technique under cost approach particularly for local government infrastructure assets.

Cost Model

After recognition as an asset, the asset item shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Cost is defined 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 in accordance with the specific requirements of other Australian Accounting Standards”.

Where the asset class was previously measured on a fair value basis, cost is deemed to be the carrying amount of the asset at the time that revaluation of that class was discontinued, less any subsequent accumulated depreciation and any subsequent accumulated recoverable amount write-downs or impairment losses.

AASB 13 Fair Value Measurement – review and revaluation according to fair value measurement.

Appendix 2 details the basis for measurement and valuation process for each asset class.

Internally Constructed Assets

The cost of assets constructed by Council shall include the cost of all materials used in construction, direct labour employed and an appropriate proportion of variable and fixed overheads.

Fixed Assets Register

The fixed asset register is to record individual assets in sufficient detail as to permit their identification and control. The fixed assets register is to be updated at least annually. The fixed assets register is to be used for the purpose of revaluing and depreciating assets and for stocktaking.

It is recommended that a stocktake of all plant and equipment, including computer equipment, be conducted at least every two years.

Impairment of Assets

Fixed assets will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use).

For assets whose economic benefits are not dependant on the ability to generate cash flows, and where the future economic benefits would be replaced if Council were deprived thereof, the value in use (infrastructure assets) is the depreciated replacement cost.

An impairment loss on a re-valued asset is recognised directly against any revaluation reserve for the asset class to the extent that the impairment loss does not exceed the amount in the revaluation reserve for that same asset class.

An asset is impaired when its carrying amount exceeds its recoverable amount.

Carrying amount is "the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon".

Recoverable amount is "the higher of its fair value less costs to sell (price in an arm's length transaction less the costs of disposal) and its value in use (for infrastructure assets generally mean depreciated replacement cost)".

For local governments 'value in use' is deemed to be depreciated replacement cost for those assets whose future economic benefits are not primarily dependent on the asset's ability to generate net cash inflows, and where the local government would, if deprived of the asset, replace its remaining future economic benefits.

Responsibilities for the asset valuation process

The following Departments and staff positions are responsible for the coordinating, monitoring and reporting the asset valuation process. (Refer Appendix 2).

- Land & Buildings, Plant & Equipment, Intangibles – Financial Services Department
- Infrastructure Assets – Assets and Recreation Department

Review

This policy is to be reviewed and adopted by Council every four years.

1. References

- Annual Financial Statements
- Annual Budget
- Asset Capitalisation and Measurement Procedure
- Infrastructure Asset Accounting Procedures
- Baw Baw Shire Council Asset Valuation 2014
- Asset Revaluation Calculation Template
- Australian Accounting Standards

2. Definitions

- Assets - resources controlled by Council as a result of past events and from which future economic benefits or service potential are expected to flow to Council.
- Capitalisation threshold - The new, upgrade or renewal value of an asset, below which the project cost is normally expensed and above which it is normally capitalised.
- Capital expenditure - Expenditure on a non-current asset which meets the adopted recognition criteria for the Asset Class or Asset Component.
- Useful life - the time period over which an asset is expected to be available for use by Council.

Status: Adopted

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Approval Authority: Council

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Due for Review on: 10 August 2020

Responsible Section: Finance

Appendix 1

Asset Class	Description (Asset Sub-Class)	Depreciation Period	Threshold
Land	Freehold and controlled land	N/A	N/A
Land under roads	Land under roads	N/A	N/A
Landfill sites	Landfill	N/A	N/A
Buildings	Offices, residential, community centres, sports clubs, amenities, stadiums, health centres, commercial premises, public halls, depot sheds.	30 to 80 years	\$25,000
Open Space and Recreation	Sports fields, courts, irrigation systems, retaining walls, street / park furniture, monuments, lighting, playgrounds, recreation equipment, signs, bins.	10 to 100 years	\$10,000
	Minor structures Garden sheds, bus shelters, coaches boxes, kiosks, barbeque shelters, equipment shelters etc.	10 to 30 years	\$5,000
Roads	Sealed Road Surface	14 to 22 years	\$10,000
	Sealed Road Pavement	75 years	\$10,000
	Concrete Road Pavement	85 years	\$10,000
	Unsealed Road Pavement	25 years	\$10,000
	Road Formation	N/A	\$10,000
	Kerb & Channel	80 years	\$5,000
Off street car parks	Sealed car parks	75 to 85 years	\$10,000
	Unsealed Car Parks	25 years	\$10,000

Asset Class	Description (Asset Sub-Class)	Depreciation Period	Threshold
Bridges	Road Bridges	60 to 100 years	\$20,000
	Pedestrian Bridges	60 to 100 years	\$10,000
	Major culverts	60 to 100 years	\$20,000
Footpaths and cycle ways	Footpaths and cycle paths	10 to 80 years	\$10,000
Drainage	Drainage Pipes	100 years	\$10,000
	Drainage Pits	100 years	\$10,000
	Minor Culverts	100 years	\$10,000
	Retardation Basins	100 years	\$10,000
Plant, machinery and equipment	Heavy plant	5 to 7 years	All
	Vehicles	4 to 5 years	All
	Minor Plant	2 to 5 years	All
Fixtures, fittings and furniture	Furniture and office equipment	1 to 20 years	\$10,000
	Computer hardware and telecommunications	3 years	\$10,000
Intangible Assets IT software	IT software	2 to 10 years	\$100,000

Appendix 2

Asset Class	Measurement Basis	Valuation Process
PROPERTY, INFRASTRUCTURE, PLANT AND EQUIPMENT		
<i>Land and buildings</i>		
<p>Land</p> <ul style="list-style-type: none"> - Freehold and controlled land 	<p>Revaluation model (fair value). Independent valuation to be performed bi-annually by registered valuer based on market value.</p> <p>Land shall be valued on the basis of adjacent site value for each parcel (asset title).</p> <p>Valuations of freehold land reserved for public open space will be valued taking into consideration the guidelines issued by the Department of Treasury and Finance.</p>	<p>Market consideration - an assessment of market transactions involving identical or similar land sales.</p> <p>Income based consideration – an assessment of the future cashflows that are converted (discounted) to a single present value amount for the purposes of determining a fair valuation measurement.</p> <p>Application of replacement cost in the event there is evidence of an active market or comparable assets, for the purposes of market based transactions, or no identified income stream.</p> <p>Description of the sensitivity of the fair value measurement to changes in observable and unobservable inputs based on an expected level 1 assessment.</p> <p>Review and reassessment of pre-existing worksheets and Council's property database for Council owned land assets.</p> <p>Rework of the current land spreadsheet to provide a base for the determination of fair value measurement.</p> <p>Responsibility – Financial Services Department</p>
<p>Buildings</p>	<p>Revaluation model (fair value). Independent valuation to be performed bi-annually by registered valuer based on market value.</p> <p>Valuation method is based on depreciated replacement cost.</p>	<p>Description of the sensitivity of the fair value measurement to changes in unobservable inputs based on an expected level 3 assessment.</p> <p>Review and reassessment of pre-existing worksheets completed by Council's Community Assets that included a detailed condition</p>

	<p>Application of replacement cost as there is no evidence of an active market or comparable assets, for the purposes of market based transactions, or no identified income stream.</p> <p>Replacement cost approach that reflects the amount that would be required to replace the service capacity of an asset (often referred to as current replacement cost). The replacement cost is identified as the price that would be received for the asset based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for deterioration and obsolescence.</p> <p>AASB 136 Impairment of Assets – that any asset impairment be identified as value in use and based on the depreciated replacement cost</p>	<p>assessment and photographic evidence of each Council building.</p> <p>Rework the current Community Assets spreadsheet to provide a base for the calculations, including a revision of the current cost (DRC) of building assets to arrive at Written Down Value (WDV) being Current Replacement Cost less Accumulated Depreciation.</p> <p>Responsibility – Financial Services Department</p>
Land under roads	Fair value	<p>Council now recognizes all land under roads within the municipality that it is responsible for and value them using the fair value method.</p> <p>The area of land under roads has been determined by using the length of road network and an average width of 20 metres.</p> <p><i>Valuation determined by:</i> <i>Site Value per m² x Land Under Roads m²</i> <i>less</i> <i>Adjustment for Englobo Value</i> <i>less</i> <i>Adjustment for Access & Carriageway Rights</i> <i>less</i> <i>Adjustment for Infrastructure Assets</i></p> <p>Responsibility – Financial Services Department</p>
Landfill Sites	Cost model	Value of airspace asset. Net Present Value of future rehabilitation costs including

		<p>aftercare costs.</p> <p>Cost base to include any modifications as a result of EPA specifications.</p>
Open Space and Recreational Facilities		
<p>Sports fields, courts, irrigation systems, retaining walls, street / park furniture, monuments, lighting, playgrounds, recreation equipment, signs, bins etc.</p> <p>Minor Structures</p>	<p>Revaluation model (fair value) every three to four years based on depreciated replacement cost.</p> <p>Internal valuations by qualified Council staff.</p>	<p>Revaluation to be completed at the component level.</p> <p>The unit costs include design and supervision costs associated with construction of these assets.</p> <p>Unit costs are sourced from rates based on benchmarking against other Victorian Councils, in particular neighboring Councils, actual rates for similar work completed by Council and actual rates for similar work carried out by contactors for Council.</p> <p>Responsibility – Assets and Recreation Department</p>
Infrastructure		
<p>Roads</p> <ul style="list-style-type: none"> - Sealed Road Surface - Sealed Road Pavement - Concrete Road Pavement - Unsealed Road Pavement - Road Formation - Kerb & Channel - Minor Culverts 	<p>Revaluation model (fair value) every three to four years based on depreciated replacement cost.</p> <p>Annual review of unit costs using Rawlinson's Australian Construction Handbook and Council contract rates for renewal, upgrade and construction of infrastructure works to ascertain any material movements. Where there are material movements (greater than 10%) indexation of unit costs is to be applied in lieu of a full revaluation.</p> <p>Internal valuations by qualified Council staff.</p>	<p>Revaluation to be completed at the component level.</p> <p>The unit costs include design and supervision costs associated with construction of these assets as well as excavation works, boxing out, formworks or site works which are required as part of the asset construction process.</p> <p>Unit costs are sourced from rates based on benchmarking against other Victorian Councils, in particular neighboring Councils, actual rates for similar work completed by Council and actual rates for similar work carried out by contactors for Council.</p> <p>Inventory and Condition Data was based on 2013/14 condition audit</p>

		<p>for the entire sealed road network. In addition capital works and developer contributions from 2013/14 have been updated in the valuations.</p> <p>For valuation purposes formation assets are divided into segments with the formation width assumed to be 1 metre wider (0.5 metres either side) than the sealed and unsealed road pavement.</p> <p>Responsibility – Assets and Recreation Department</p>
<p>Bridges and Major Culverts</p> <ul style="list-style-type: none"> - Bridges (Road and Pedestrian bridges) - Major Culverts 	<p>Revaluation model (fair value) every three to four years based on depreciated replacement cost.</p> <p>Annual review of unit costs using Rawlinson's Australian Construction Handbook and Council contract rates for renewal, upgrade and construction of infrastructure works to ascertain any material movements. Where there are material movements (greater than 10%) indexation of unit costs is to be applied in lieu of a full revaluation.</p> <p>Internal valuations by qualified Council staff.</p>	<p>The replacement cost for all bridges and culverts has been based on the assumption that existing bridges and culverts, reaching the end of their useful life will be replaced with identical profiles and materials where appropriate.</p> <p>Timber bridge structures or culvert sizes no longer manufactured will be replaced with equivalent standard structures.</p> <p>Remaining Useful Life – specialist condition rating by VicRoads Bridge Rating Manual to assess remaining useful life.</p> <p>Responsibility – Assets and Recreation Department</p>
<p>Footpaths and Cycleways</p>	<p>Revaluation model (fair value) every three to four years based on depreciated replacement cost.</p> <p>Annual review of unit costs using Rawlinson's Australian Construction Handbook and Council contract rates for renewal, upgrade and construction of infrastructure works to ascertain any material movements. Where there are material movements (greater than 10%) indexation of unit costs is to be applied in lieu of a full revaluation.</p> <p>Internal valuations by qualified Council</p>	<p>Inventory and Condition Data is based on 2011/12 audit for the entire footpath network. In addition capital works and developer contributions from 2013/14 have been updated in the valuations.</p> <p>Footpath assets include the wearing material and base; it does not include other infrastructure such as road pavement, kerb and channel or culvert.</p> <p>Valued at depreciated replacement</p>

	<p>staff.</p>	<p>cost based on the assumption that all existing concrete, asphalt and gravel footpaths, reaching the end of their useful life will be replaced with identical profiles and materials.</p> <p>In 2011/2012, Council conducted an inventory and condition audit of the entire footpath network. A condition score was assigned to each footpath segment based on the percentage of defects in that footpath segment.</p> <p>Responsibility – Assets and Recreation Department</p>
<p>Drainage</p> <ul style="list-style-type: none"> - Drainage Pipes - Drainage Pits - Minor Culverts - Retardation Basins 	<p>Revaluation model (fair value) every three to four years based on depreciated replacement cost.</p> <p>Annual review of unit costs using Rawlinson's Australian Construction Handbook and Council contract rates for renewal, upgrade and construction of infrastructure works to ascertain any material movements. Where there are material movements (greater than 10%) indexation of unit costs is to be applied in lieu of a full revaluation.</p> <p>Internal valuations by qualified Council staff.</p>	<p>Inventory and Condition Data is based on 2013/14 condition audit for the storm water drainage network, the audit excluded drainage infrastructure within easements on private property. A 15% sample of pits and pipes within the network was used to represent the pits and pipe on easements that have not been verified.</p> <p>Responsibility – Assets and Recreation Department</p>
<p>Off Street Car Parks</p> <ul style="list-style-type: none"> - Sealed car parks - Unsealed Car Parks 	<p>Revaluation model (fair value) every three to four years based on depreciated replacement cost.</p> <p>Annual review of unit costs using Rawlinson's Australian Construction Handbook and Council contract rates for renewal, upgrade and construction of infrastructure works to ascertain any material movements. Where there are material movements (greater than 10%) indexation of unit costs is to be applied in lieu of a full revaluation.</p> <p>Internal valuations by qualified Council staff.</p>	<p>Inventory and Condition Data is based on 2013/14 condition audit</p> <p>Responsibility – Assets and Recreation Department</p>

Plant and equipment		
Plant, Machinery and Equipment <ul style="list-style-type: none"> - Heavy Plant - Vehicles - Minor Plant 	Cost model.	Fixed Assets recoded at cost. Responsibility – Financial Services Department
Fixtures, Fittings and Furniture <ul style="list-style-type: none"> - Furniture and office equipment - Computer hardware and telecommunications 		Fixed Assets recoded at cost Responsibility – Financial Services Department
Intangibles		
IT Software	Cost model	Fixed Assets recoded at cost. Responsibility – Financial Services Department