CHERBOURG ABORIGINAL SHIRE COUNCIL

ASSET MANAGEMENT POLICY

2016-17

Origin / Authority

1. Local Government Act 2009

2. Local Government (Finance, Plans & Reporting) Regulation 2012

NAME:	*ASSET MANAGEMENT POLICY*
DEPARTMENT:	*CORPORATE SERVICES*
CATEGORY:	*FINANCIAL MANAGEMENT*
AIM:	*To formulate and adopt a Policy which serves as a guide for Council in the recognition, valuation, revaluation and recording of Non-current Assets and its accounting for depreciation and meeting legislative requirements.*

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OVERVIEW

The purpose of this policy is to provide a framework for identifying, valuing, recording and writing-off non-current physical and intangible assets. In particular, the policy aims to:

- Clarify the definition of, and accounting recognition concepts for, assets;
- Provide guidance on determining the periodic cost of using assets (depreciation/amortisation);
- Specify a basis for valuing non-current assets; and
- Set out the approach to be adopted in regularly reviewing assets.

RECOGNITION OF ASSETS

DEFINITION – NON CURRENT ASSETS

An asset is defined as a resource with a future economic benefit or service potential, which is controlled by the Council and has arisen from past transactions or events. Each recognised asset controlled by the Council as a result of a past transaction or other past event is to be treated as, or is to form part of the asset.

For the asset to be regarded as an asset of the Council, the Council must control it. Control is generally, but not always synonymous with ownership. To control the asset, the Council must have the capacity to:

- Benefit from the asset in pursuit of its objectives; and
- Deny or regulate the access of others to that asset.

Non current Assets are those assets where the normal period of future economic benefit or service potential is greater than 12 months. A future economic benefit generally stems from the capacity of the asset to contribute to the ability of the Council to meet its service objectives.

ASSET RECOGNITION PRINCIPLES

Property, plant and equipment is defined in AASB 116 Property, Plant and Equipment (AASB 116) as

> *tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.*

In terms of the Framework and AASB 116, assets should only be recognised by an agency when:

- It is probable that future economic benefits will eventuate; and
- The asset possesses a cost or other value that can be measured reliably.

RECOGNISED VALUE OF AN ASSET

On initial recognition, all costs incurred in purchasing or constructing the asset and getting it ready for use are capitalised to the value of the asset.

The following costs are included in the cost of an item of property, plant and equipment upon initial purchase or construction and are capitalised:

- The purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Once the item of property, plant and equipment is in the location and condition necessary for it to be capable of being operated in the manner intended, the capitalising of costs must cease.

General administration and other indirect overhead costs and training costs are not to be capitalised and should be expensed.

ASSET CLASSES AND THRESHOLDS

The following table outlines the prescribed asset classes and their thresholds.

CLASS	No.	CODE	THRESHOLD
LAND	1	LAN	$1 (All Land)
HOUSES	2	HOU	$10,000
BUILDINGS	3	BLD	$10,000
OTHER STRUCTURES	4	OS#	$10,000
ROADS - RURAL	5	RDR	$10,000
- URBAN	5	RDU	$10,000
BRIDGES	6	BRG	$10,000
DRAINAGE	7	DRN	$10,000
PLANT & EQUIPMENT	8	PE#	$5,000
MOTOR VEHICLES	9	MV	$5,000
FURNITURE & OFFICE EQUIPMENT	10	FOE	$5,000
WATER INFRASTRUCTURE	11	WAT	$10,000
SEWERAGE INFRASTRUCTURE	12	SEW	$10,000
OTHER (Floating Plant & Loose Tools)	13	FPL	N/A

Portable and Attractive Items (Floating Plant and Loose Tools)
Certain items that have values below the asset recognition threshold are, by their nature, susceptible to theft or loss. Such items, termed portable and attractive, may include personal computers, programmable calculators, cameras, power tools, ladders and like items. Such items must be registered for physical control purposes. A separate Register of Portable and Attractive Items is maintained and such assets are recorded at 'nil' value in the Asset Register. Portable and attractive items are not reported in the Council's financial statements.

LEASED ASSETS

AASB 117 Leases requires that assets acquired under finance leases be recognised initially at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, using the interest rate implicit in the original lease contract as the discount factor. A corresponding liability for the lease payments must also be recorded.

Assets acquired under a finance lease are subject to the same revaluation requirements as assets that are owned or otherwise controlled by the Council.

Assets subject to operating leases are not controlled by the Council and should not be recognised as assets.

VALUATION OF ASSETS

FAIR VALUE BASIS

Agencies are to record at fair value all land, buildings, infrastructure, major plant and equipment and heritage and cultural assets.

The term 'fair value' is defined in AASB 116 as being

> '*the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction*'.

This is not necessarily the market selling price of the asset. Rather it should be regarded as the maximum value that agency management would rationally pay to acquire the asset if it did not currently hold it, taking into account:

- Quoted market price in an active and liquid market eg listed shares;
- The current market price of the same or similar asset eg land;
- The cost of replacing or reproducing the asset, if management intend to replace the asset;
- The remaining useful life and condition of the asset; and
- Cash flows from future use and disposal.

The appropriate methodology for each class of asset is outlined below:

Land and Improvements:	Land is based on market value. Land Improvements are determined on a case by case basis having regard to the substance and nature of the works.
Houses:	Valuation is based on current replacement cost
Buildings:	Valuation is based on current replacement cost.
Other Structures:	Valuation is based on current replacement cost.
Roads:	Valuation is determined on current replacement cost.
Bridges:	Valuation is based on current replacement cost.
Drainage:	Valuation is based on current replacement cost.
Plant and Equipment:	Valuation is based on historical cost.
Motor Vehicles:	Valuation is based on historical cost
Furniture and Office Equipment:	Valuation is based on historical cost.
Water Infrastructure:	Valuation is based on current replacement cost.

Sewerage Infrastructure: Valuation is based on current replacement cost.

REVALUATION OF ASSETS

INTRODUCTION

To ensure that information relating to assets continues to satisfy the criterion of *relevanc*e, it is necessary that periodic revaluations be performed. It is appropriate in the circumstances to provide for periodic comprehensive revaluations combined, where applicable, with annual interim revaluations based on specific indices.

COMPREHENSIVE REVALUATIONS

It is a requirement for Council to have comprehensive revaluation carried out at regular intervals to ensure that the carrying amount of an asset does not differ materially from that which would be determined using fair value at the reporting date.

Where an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is to be revalued.

INTERIM REVALUATIONS

To maintain the value of assets in current terms, interim (desk-top) revaluations of assets measured at fair value should be performed on an annual basis. These interim valuations should use relevant Australian Bureau of Statistics price indices or other reliable measures that can be used to estimate the current values of major asset classes. Council needs only account for the impact of revaluation if the cumulative change in the index is 5% or greater (either positive or negative).

For Land assets, appropriate valuation indices can be obtained from the Department of Natural Resources and Mines. The use of Unimproved Capital Value valuations provided by the Department of Natural Resources and Mines for rating purposes is not appropriate for financial statement purposes.

For the valuation of non-residential buildings, the Queensland Implicit Price Deflator should usually be used as the basis of interim valuations. The Economic Statistics Section, Office of Economic and Statistical Research (OESR), Queensland Treasury will provide advice on indices, including the Implicit Price Deflator index.

Interim revaluations also should take into account any other changes that have a material impact on the value of the asset.

REVALUATION SCHEDULE

The table below outlines a revaluation schedule for proposed revaluations:

ASSET CLASS	LAST REVALUATION	INTERIM REVALUATION				NEXT REVALUATION
		10	11	12	13	
LAND						2016
HOUSES						2016
BUILDINGS						2016
OTHER STRUCTURES						2016
ROADS						2016
BRIDGES						2016
DRAINAGE						2016

PLANT & EQUIPMENT	N/A					
MOTOR VEHICLES						
FURNITURE & OFFICE EQUIPMENT	N/A					
WATER INFRASTRUCTURE						2016
SEWERAGE INFRASTRUCTURE						2016

IMPAIRMENT OF ASSETS

INTRODUCTION

All non-current assets must be assessed for impairment in accordance with AASB 136 Impairment of Assets (AASB 136). Assets held at either cost or fair value are subject to the requirements of the Standard.

The requirements of the Standard apply subject to the provisions contained in AASB 1031 Materiality. In determining materiality, where assets are tested for impairment and the total change in the written down value for the class of assets or the total impact on depreciation for the class of assets is material, then the impairment loss must be brought to account.

DEFINITION

Impairment is the decline in the future economic benefits or service potential of an asset, over and above the use reflected through depreciation.

In general, an asset is impaired when its recoverable amount (i.e. the net amount expected to be recovered through cash flows arising from its use and disposal) is less than its carrying amount. If an asset is impaired, it must be written down and an impairment loss recorded.

For assets recorded at fair value there would generally be only a few instances where an impairment loss would arise, however an annual review for indicators will need to be performed.

RECOGNITION

Agencies must assess every year at reporting date whether there are any indicators that an asset may be impaired. This assessment will be at the individual asset level rather than at the class level.

For physical assets there is only a need to test an asset for impairment if there is an indication of impairment. The events or circumstances that may indicate the impairment of an asset will generally be significant and reference should be made to the Standard AASB 136 (paragraph 12) for a list of minimum considerations for indicators of impairment.

DEPRECIATION AND AMORTISATION

DEFINITION – DEPRECIATION AND AMORTISATION

Where non-current assets, including intangible assets, have a limited useful life, they must be depreciated in accordance with the requirements of AASB 116 Property, Plant and Equipment (AASB 116) and AASB 138 Intangible Assets (AASB 138). The term “depreciation” should be used when referring to non-current assets that have physical substance. The term “amortisation” is used in relation to intangible assets and finance leases.

AASB 116 defines depreciation as:

The systematic allocation of the depreciable amount of an asset over its useful life.

AASB 138 defines amortisation as:

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Essentially, depreciation is an allocation process, in which the cost of an asset or any other amount substituted for cost, (less any expected residual value) is systematically allocated over the useful life of the asset to the agency, that is, the time over which it is expected to earn revenue or provide service potential to the Council.

DEPRECIATION METHOD

The depreciation methodology for all classes of assets shall be the straight-line method, combined with an assessment of the condition of each asset. The straight line method allocates the depreciable amount in approximately equal amounts in each accounting period over the useful life of the asset being depreciated.

AASB 116 defines "depreciable amount" as:

The cost of an asset, or other amount substituted for cost, less the residual value.

USEFUL LIFE

AASB 116 defines "useful life" as:

The period over which an asset is expected to be available for use by an agency.

The estimation of useful life is to be based on the Council's past experience and its planned replacement programs. If an asset is still used beyond its "ideal" or "optimum" replacement timeframe, the extended period is the life which should be used.

AASB 116 requires that the residual value and the useful life of an asset be reviewed annually

The table below outlines the useful life ranges of Council's assets.

ASSET CLASS		**LIFE IN YEARS**
LAND		Not Depreciated
HOUSES		10-80
BUILDINGS		10-80
OTHER STRUCTURES		10-100
ROADS Seal Gravel **(Pavement)** Sub-base Seal Sub-base Gravel Formation **(Sub-grade)** Kerb & Channel Road Culverts Bridges **Earthworks and Road Furniture**	 **(10 – 15 yrs)** **(48 – 80 yrs)** **(80 yrs)** **(30 yrs)** **(30-50 yrs)** **(EW = 80 yrs)**	 7-100 1-30 40-100 30-100 125-500 10-80 20-80 30-80
BRIDGES **(Large Drainage Structures)**		20-100
DRAINAGE **(Urban Drainage)**		20-100
PLANT & EQUIPMENT		3-10

MOTOR VEHICLES	3-10
FURNITURE & OFFICE EQUIPMENT	3-5
WATER INFRASTRUCTURE	5-95
SEWERAGE INFRASTRUCTURE	5-80

RESIDUAL VALUES

The residual value is the amount expected to be recovered from the disposal of the asset at the end of its useful life to the agency after deducting the estimated costs of disposal.

AASB 116 requires that the residual value and the useful life of an asset be reviewed annually.

When setting residual values both current market/cost prices and historical trends are taken into account.

Land: Not depreciated, so no residual value required.

Houses: Market Value

Buildings and Other Structures: Market Value / If demolished as per individual component – Disposal value.

Roads: Per individual component – condition based evaluation method using a percentage of individual components of the gross replacement cost.

NOTE: The road asset contains components that have, for all practical purposes, almost infinite lives. Examples are road embankments, cuttings, alignment, clearing and grubbing, and much of the formation of roads.

Bridges: Per individual component – Disposal value.

Drainage: Per individual component – Disposal value.

Plant and Equipment: Disposal value or market values at end of useful life.

Motor Vehicles: Disposal Value of market value at end of useful life

Water Infrastructure: NIL

Sewerage Infrastructure: NIL

UNFUNDED DEPRECIATION

It is the Policy of Council to allocate sufficient unrestricted funds, after meeting all other ordinary expenses, to the funding of the annual depreciation expense. This will not apply to depreciation on capital assets that the Council has resolved not to replace on their ultimate demise, or assets that Council has decided may be replaced using alternative sources of funding eg Subsidy arrangements.

If insufficient funds are available, Council may recover the shortfall in the next year's budget allocation, or resolve to not fund that portion of the depreciation expense that cannot be funded from available funding sources.

Unfunded Depreciation is calculated as per below;

- **Council will decide what assets will not be replaced at the end of their useful lives. These assets will continue to be depreciated in line with the usage of their service potential, but that depreciation will not be funded by the raising of equivalent operating revenue.**

- **Council will decide, for individual assets or for classes of that asset group, what percentage of these assets could be raised from available funding sources, such as grants or contributions. To the extent of those sources, Council may determine not to raise equivalent operating revenue – that is, it will not fund this proportion of the depreciation on those assets.**
- **These decisions will be documented and form a Council resolution as part of the annual budget process.**

The amount of the Unfunded Depreciation in any budget year, based on the above principles, will be the amount shown in the Appropriation Statement as the *Unfunded Depreciation Transfer from Shire Capital*.

Classes of Assets

Land
Not Depreciated

Houses

Buildings and Other Structures
Council will fund depreciation on all Buildings and Other Structures

Roads
Council will fund the depreciation on all of its road network assets. Council has in place General Maintenance Programs to maintain the region's road network that are funded from operating revenues.

Bridges
Council will fund the depreciation on all of its bridge assets.

Drainage
Council will fund the depreciation on all of its drainage assets.

Plant and Equipment
Council will fund depreciation on those items it intends to replace as per Council's adopted Plant Replacement Schedule.

Motor Vehicles

Water Infrastructure
Council will fund the depreciation of all Water Infrastructure assets.

Sewerage Infrastructure
Council will fund the depreciation of all Sewerage Infrastructure assets.

DISPOSAL OF ASSETS

AASB 116 specifies that an item of property, plant and equipment is to be derecognised:

- On disposal; or
- When no future economic benefits are expected from its use or disposal.

When disposing of assets, the following applies where the apparent value of the asset is as per the amounts identified below:

- CEO has approval up to $10,000;

- Council approval required for amounts greater than $10,000; and
- Any disposal of land must be approved by Council.

ANNUAL ASSET DISPOSAL PLAN

Section 483I of the Local Government Act 1993 states that Council must adopt, by resolution, an asset disposal plan for its designated disposal activities for each of its financial years.

- Council's planned disposal of assets will be outlined and adopted during its budget preparations for the financial year.