

**BARCOO SHIRE COUNCIL POLICY**  
**NON-CURRENT ASSET ACCOUNTING POLICY**



<b>Policy Number:</b> BSC034	<b>Version:</b> 1
<b>Classification:</b> Statutory	<b>Section:</b> Corporate Services
<b>Date Adopted by Council:</b> 15.06.2022	<b>Resolution Number:</b>
<b>Responsible Officer:</b> Manager Corporate Services	<b>Review: Note:</b> This Policy is reviewed when any of the following occur: 1. The related information is amended or replaced. 2. Other circumstances as determined from time to time by the Chief Executive Officer.
<b>State Government Legislation:</b> <i>Local Government Act 2009, Local Government Regulation 2012, Financial Accountability Act 2009, Financial and Performance Management Standard 2009.</i> <b>Australian Accounting Standards:</b> <i>AASB 5 – Non-current Assets held for Sale and Discontinued Operations; AASB 13 – Fair Value Measurement; AASB 101 – Presentation of Financial Statements; AASB 116 – Property, Plant and Equipment; AASB 117 – Leases; AASB 136 – Impairment of Assets; AASB 108 – Accounting Policies, Change in Accounting Estimates and Errors</i>	

### 1. PURPOSE

The aim of this policy is to contribute to the better management of assets of the Council and to provide accurate data regarding assets in all financial documents.

This policy addresses the accounting treatment of non-current assets that provide future economic benefit to Barcoo Shire Council and the community.

### 2. SCOPE

The Non-Current Asset Accounting Policy, applies to the line items of property, plant & equipment, and assets held for resale as disclosed within Council’s Statement of Financial Position.

This policy generally impacts upon all Council employees and contractors. Specifically, the policy is directly applicable to Asset Custodians and Council officers who have asset management and asset accounting responsibilities. This policy will be applicable when performing the following functions:

- Acquiring, constructing or developing a non-current asset
- Accounting for costs incurred in maintaining a non-current asset
- Renewing, replacing or enhancing the service potential of a non-current asset
- Revaluing non-current assets
- Disposal of non-current asset
- Accounting for the depreciation or amortisation of non-current assets
- Reporting and disclosing non-current assets
- Establishing the useful life and residual values of non-current assets
- Testing noncurrent assets for impairment

### 3. POLICY

This policy addresses the accounting treatment of non-current assets that provide future economic benefit to Barcoo Shire Council and the community. The policy also provides guide to the allocation of responsibilities of assets.

An Asset Accounting Policy is necessary to assist in the process of capturing meaningful data for strategic planning purposes (i.e. Asset Management Plans & Long Term Financial Plans). Expenses

related to assets will be classified into asset work activities (i.e. operations, maintenance, capital renewal and capital new/upgrade), and useful lives and capitalisation thresholds reviewed.

The separation of maintenance and operating expenses from capital expenditure is necessary for the financial statements to accurately portray council's financial condition.

### 3.1 Asset Classes

An asset class is a grouping of non-current assets in the financial asset register of a similar nature and the lowest level of information on non-current assets included within Council's financial statements. The following asset classes are reported by Council:

- Land
- Buildings
- Fleet, Plant and Equipment
- Roads, Bridges and Drainage
- Water Infrastructure
- Other Infrastructure
- Capital Works in Progress

### 3.2 Asset Recognition

All non-current Property Plant and Equipment assets must be recorded in Council's financial asset register.

For an item to be recognised as a non-current asset in Council's financial asset registers it must meet all of the following criteria:

- Council has control over the asset.
- It is probable that future economic benefits associated with the item will flow to Council.
- The cost or fair value of the asset can be measured reliably.
- The cost or fair value exceeds Council's asset recognition threshold.

*Australian Accounting Standard AASB 116(10)* states that under the recognition principle, an asset is to be recognised when costs are incurred. An item that meets the definition of an Asset shall be measured at cost in accordance with *AASB 116*:

The cost of an asset will include:

- Purchase price less deductions (rebates, discounts etc.)
- Costs directly attributable to bringing the asset to a location where it can be used as intended. This would include:
  - Employee compensation. This includes costs of employee benefits arising directly from the construction or acquisition of the asset: eg outside wages, inside project management costs, and "on costs" such as superannuation and workers compensation.
  - Site preparation and/or restoration - Assembly costs.
  - Professional fees.

Purchase Costs excluded from in the cost of an asset include:

- Marketing and advertising costs incurred when opening a new facility.
- Costs incurred after the date an asset is deemed in use (upgrades, maintenance, etc.).
- Avoidable costs.

- Financing Costs – Interest charged on borrowings to fund asset purchase.
- Preliminary Studies.

These accumulated costs represent the value of the asset at cost as at the date in which the asset is deemed to be complete and available for use. Council may acquire assets at zero or at a nominal value, the asset is deemed to be valued at its fair value at date of acquisition. This initial valuation does not constitute a revaluation, a revaluation will only occur when it is the expressed decision of management to revalue a class of assets due to a change in the future economic benefits of that class, or every four to five years.

### 3.3 Asset Recognition Thresholds

Recognition thresholds to be applied on initial acquisition of an asset are as follows:

<b>Asset Type</b>	<b>Threshold</b>
Land	No threshold
Buildings	\$5,000
Fleet, Plant and Equipment	\$5,000
Infrastructure Assets	\$5,000

### 3.4 Capital Costs on Assets after Initial Recognition

Costs on assets incurred after initial recognition are to be capitalised whenever the associated work either renews, extends or upgrades the asset's underlying service potential.

### 3.5 Asset Valuation Method

All Council assets that qualify for recognition are to be initially measured at cost. However, where an asset is acquired at no cost (contributed/donated) or for nominal cost, the value is deemed to be its fair value at the date of acquisition. Fair Value is deemed to be either:

- Market Value if there is market evidence; or
- Depreciated Replacement Cost if there is no market evidence.

Where an asset was acquired in prior financial years and has yet to be recorded in Council's financial asset register, the asset is to be brought to account at the fair value as at the date of recognition.

The valuation method applicable to each Asset Class subsequent to initial recognition is as follows:

<b>Asset Class</b>	<b>Valuation Method</b>
Land	Market Value
Buildings	Market Value or Depreciated Replacement Cost where no market readily available
Fleet, Plant and Equipment	Cost / Market Value for major plant
Roads, Bridges and Drainage	Depreciated Replacement Cost
Water Infrastructure	Depreciated Replacement Cost
Other Infrastructure	Cost or fair value

### 3.6 Depreciation

The method and rate of depreciation will be based on accepted patterns of useful life by Local Government, the experience of localised conditions to assess any environmental impact on those assets, and the verification from an independent valuer.

Council uses the straight line method to depreciate tangible non-current assets (other than parcels of land, which are not subject to depreciation or amortisation).

The Straight-line Depreciation approach is where consumption of benefits is in a uniform manner over the useful life of the asset, calculated on asset cost less residual value.

Asset depreciation and amortisation parameters, useful lives, asset condition (used to assess remaining useful lives) and residual values are to be reviewed with sufficient regularity to ensure that they are representative of current conditions and expectations at the end of each financial year. Remaining useful life of an asset should be reassessed whenever a major addition or any significant partial disposal is processed.

### **3.7 Asset Revaluations**

All assets subject to a revaluation process are to be revalued at Fair Value.

The Gross Revaluation method is to be applied, whereby any accumulated depreciation at the date of revaluation is restated proportionally with the change in the asset's gross carrying amount.

With the exception of assets that remain valued at cost, a full revaluation is undertaken every four to five years.

Full revaluations for applicable asset classes are completed on a rolling basis whereby all assets underlying a particular asset class, recognised on the financial asset register, are revalued simultaneously within a given financial year.

An interim revaluation using indices developed via a desktop approach is to be undertaken at financial year-end for an asset class subject to regular revaluations whenever there has been a material movement in replacement cost (or market value, where applicable) since the last full revaluation.

### **3.8 Non-Current Asset Disposal**

A financial asset is to be derecognised in the financial asset register whenever:

- The asset is destroyed, abandoned or decommissioned with no future economic benefit expected to be generated from its use;
- The asset is scrapped, sold or traded;
- The asset is lost or stolen; or
- Control of the asset is transferred to another entity.

All assets derecognised from the financial asset register require authorisation by the respective Asset Custodian.

Partial disposal of an infrastructure asset is to occur whenever:

- A significant component or section of an infrastructure asset is destroyed, abandoned or decommissioned with no future economic benefit expected to be generated from its use; or
- Major renewal works have been undertaken resulting in a significant component or section of an infrastructure asset being replaced.

### **3.9 Management of Work In Progress**

Work In Progress balances are to be reviewed at least monthly to ensure that they are cleared no later than six months after practical completion or prior to full revaluation of the pertinent asset class, whichever occurs first.

### 3.10 Minor Assets

The acquisition of minor assets is treated as an expense. Thresholds relating to minor assets are disclosed in the Expenditure Classification Procedure.

### 3.11 Treatment of Flood Damage on Road Assets

Expenditure due to unexpected damage can be either maintenance or capital depending on the extent and type of damage. Damage can be a result of a variety of external influences, most of which will cause minimal damage and result in maintenance expenditure to ensure the useful life of the asset is realised. The major cause of damage to transport assets is prolonged or repetitive inundation caused by cyclonic, flooding and monsoonal rainfall events. The majority of damage caused by declared events is repaired using Disaster Recovery Funding Arrangements (DRFA) as a combination of operational and capital expenditure.

Affected assets are inspected after each event to establish the extent of damage. Whilst the majority of damage is evident immediately after the event, damage to sealed roads due to saturation of subgrade and pavement material can become evident sometime after the event. Subsequent inspections are therefore required to ensure all damage is recorded.

- If the damage is extensive rendering the level of service of the asset diminished and requiring reconstruction, the relevant components of the asset will be written off at the time of approval of reconstruction works after the event. Replacement works treatments will be carried out in the future and expenditure will be capitalised. (See table below for detail of relevant treatments)
- If the damage is not extensive and does not diminish the level of service of the asset but still requires some level of reconstruction, this is considered as a maintenance treatment and will be recorded as operational expenditure.

Historically, the vast majority of the Barcoo shire road network is unsealed gravel roads so the majority of the flood damage repairs are expected to be operational expenditure.

#### ***Flood Damage Treatments that will be Capitalised***

<b>Treatment Name</b>	<b>Capitalisation Threshold</b>
Bitumen spray seal, 2-coat	Full Width, Min. 100m
Bulk fill (for formation)	Full Width, Min. 500m
Gravel Resheeting	Full Width, Min. 500m
Heavy formation grading AND GRAVEL TOP UP	Full Width, Min. 1km
Reconstruct reinforced concrete	Full Width, 20% Floodway Length
Reconstruct unbound granular base. Excludes seal	Full Width, Min. 100m
Reconstruct unbound granular pavement. Excludes seal	Full Width, Min. 100m
Replace Pipe	Full Width

*If not defined above, treatment is considered maintenance and will be recorded as operational expenditure.*

#### **Asset Component Allocation Rules**

The following criteria has been used to determine which road components each treatment relates to

##### *Formation*

Bulk Fill Treatments - These treatments reinstate lost formation or road subgrade

##### *Unsealed Gravel Pavement*

Resheet - These reinstate lost gravel pavement

Heavy Formation Grading plus Gravel Top Up - These reinstate a portion of the lost gravel pavement

*Sealed Pavement*

Sealed Unbound Pavement or Base Repairs - Repair of lost or fatigued gravel pavement on a sealed road

*Seal*

Partial or full reseal where damaged

*Floodway*

Reconstruct reinforced concrete

Replace Pipe

#### 4. DEFINITIONS

***“Amortisation”***

The systematic allocation of the cost of an intangible asset (less any residual value) over its useful life to reflect patterns of periodic consumption of the asset.

***“Asset”***

Future economic benefits controlled by Council as a result of past transactions or other past events.

***“Asset Class”***

Grouping of non-current assets of a similar nature and the lowest level of information on non-current assets included within Council’s financial statements.

***“Asset Custodian”***

Council officer accountable for management of an asset.

***“Asset Recognition”***

The process whereby a non-current asset is included in the financial asset register and therefore recognised on Council’s Statement of Financial Position.

***“Capital Expenditure”***

Costs incurred over the life of an asset of a nature that either renew, extend or upgrade the asset’s underlying service potential.

***“Cost”***

Amount of cash or cash equivalent paid or the fair value of any other consideration given to acquire an asset at the time of its acquisition or construction.

***“Control”***

Ability of Council to obtain benefits flowing from the asset and to restrict the access of others to those benefits.

***“Decommissioning”***

Removal, demolition, or elimination of an asset’s service potential, resulting from a specific management decision.

***“Depreciation”***

The systematic allocation of the depreciable amount of an asset over its useful life to reflect patterns of periodic consumption of the asset.

***“Fair Value”***

Equates to market value if a readily available market exists or depreciated replacement cost where no market exists.

***“Financial Asset Register”***

Repository of financially recognised non-current assets and related information used primarily for financial accounting purposes.

***“Full Revaluation”***

The process whereby the fair value of all assets within an asset class are updated in line with current market values or replacement cost and remaining useful life along with residual value are reassessed.

***“Future Economic Benefits”***

In respect to not for profit entities such as Council, future economic benefits refer to the ability of an asset to provide goods or services in accordance with the organisation’s objectives.

***“Gross Carrying Amount (aka Gross Value)”***

The amount at which an asset is recorded (either at cost or fair value) within the financial asset register, excluding any deduction for accumulated depreciation or accumulated impairment losses.

***“Interim Revaluation”***

Desktop review of asset values recorded in the financial asset register, whereby all assets within an asset class are adjusted by an indexation factor.

***“Impairment”***

Decrease in service potential of an asset as a consequence of an irregular event or catastrophe, resulting in its recoverable amount being less than its carrying amount.

***“Infrastructure Assets”***

Typically large, interconnected networks or programs of composite assets. The components of these assets may be separately maintained, renewed, replaced or disposed of, so that the required level and standard of service from the network of assets is continuously sustained. Generally, the components and hence the assets, have long lives. They are fixed in place and rarely have any market value.

***“Nominal Cost”***

Nil or minimal cost for which an asset has been acquired.

***“Non-Current Asset”***

An asset held by Council for use rather than exchange and which provides an economic benefit for a period greater than one year.

***“Remaining Useful Life”***

The remaining operational life of an asset in service, irrespective of the period an asset has been in use or its design life or initial useful life when first recognised.

***“Renewal Works (aka Asset Renewal)”***

Capital works that reinstates some or all of the original service potential of an asset

***“Replacement Cost”***

The current cost to replace or reproduce an asset based on similar operating conditions.

***“Residual Value (aka Salvage Value or Scrap Value)”***

The estimated amount that would be obtained today from the disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in condition expected at the end of its useful life.

***“Useful Life”***

The period of time an asset is intended to be used by Council, which is estimated when the asset is initially put into service.

**Related Documents:**

*BSC001 - Procurement Policy*

*BSC002 - Asset Management Policy (EXG-021)*