	COUNCIL POLICY	
	Non-Current Asset Accounting Policy	
	POLICY NO	035
	DEPARTMENT	Engineering & Commercial Infrastructure
	PROGRAM	Asset Management
	APPROVED BY COUNCIL	10 July 2019, Folio 63352

1.0 Scope

This policy applies to all asset accounting related activities for property, plant and equipment and intangible assets.

This policy only applies to non-current assets.

2.0 Purpose

This policy provides a framework to regulate and guide the identification, recognition and measurement of non-current assets of Mackay Regional Council (MRC) to ensure compliance with the *Local Government Act 2009, Local Government Regulation 2012* and Australian Accounting Standards.

3.0 Reference

- All relevant Australian Accounting Standards Board (AASB) Standards
- Asset Management Policy
- Local Government Act 2009
- Local Government Regulation 2012
- Asset Disposal Policy

4.0 Definitions

To assist in interpretation the following definitions shall apply;

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

Asset shall mean a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Asset Owner shall refer to a Program accountable for management decisions, performance, and condition of the MRC asset.

Carrying amount shall mean the amount at which an asset is recorded (either at cost or fair value) within the asset register after deducting any accumulated depreciation and accumulated impairment losses. This is the same as an asset's written down value or net book value.

Council shall mean the Mayor and Councillors of Mackay Regional Council.

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

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

Future economic benefits shall mean the ability of an asset to provide goods or services in accordance with the organisations objectives.

Impairment shall mean a 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.

Intangible asset shall mean an asset that is not physical in nature and refers to MRC software and easements in application of this policy.

Materiality shall mean if the omission or misstatement of an item, individually or collectively would influence the economic decisions of users of the financial statements or the accountability of management or governing body.

MRC shall mean Mackay Regional Council.

On maintenance shall mean the point in time that MRC accepts control of an asset handed over by a property developer and assets are recognised in MRC's accounts. The term 'on maintenance' refers to an effective warranty period whereby the responsibility for rectification defects associated with the contributed assets rests with the developer.

Property, plant and equipment shall mean tangible items that (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.

Residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the 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 shall mean (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.

5.0 Background

Under the *Local Government Act 2009* and *Local Government Regulation 2012* all local governments in Queensland must produce annual financial statements that comply with Australian Accounting Standards.

An asset accounting policy is necessary to assist in the process of capturing meaningful data for strategic planning purposes to ensure a sustainable asset platform upon which to deliver services into the future.

This information will be audited as part of the annual external audit by the Queensland Audit Office.

6.0 Policy Statement

6.1 Definition of an asset

An asset is defined as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity *(AASB Framework, paragraph 49).*

A non-current asset refers to an asset that is expected to be used during more than one financial year period.

6.2 Asset Register

A register of all non-current assets shall be maintained and shall record individual assets in sufficient detail as to permit their identification and control. The assets register shall be updated at least annually. The assets register shall be used for the purpose of revaluing and depreciating assets and for stocktaking.

6.3 Financial Asset classes

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

- Buildings
- Site improvements
- Plant and equipment
- Road, bridge and drainage network
- Water
- Sewerage
- Intangibles
- Investment Property

An asset's financial asset class need not be the same as its asset class. The asset class is the organisation of data from an operational perspective while financial classes are intended to align similarly typed assets from a valuation perspective.

6.4 Asset recognition

In accordance with Accounting Standard AASB116 Property, Plant and Equipment (AASB116):

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the entity; and (b) the cost of the item can be measured reliably

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. Notwithstanding, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition. *[AASB116.15]*

Where fair value shall mean 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. *[AASB116.6]*

The following criteria must be met for an item to be recognised as a non-current asset in MRC's asset register;

- It is probable that future economic benefits associated with the item will flow to MRC; and
- The cost or fair value of the item can be measured reliably
- MRC has control over the asset
- The cost or fair value exceeds MRC's asset recognition threshold and
- The asset is expected to be used for more than one financial year.

6.5 Asset recognition threshold

Section 206 of the *Local Government Regulation 2012* requires a MRC to set an amount below which the value of a non–current asset must be treated as an expense. Therefore, MRC adopts the following thresholds:-

Asset Type	Threshold (excluding GST)
Land	**$ 1**
Buildings	**$ 5,000**
Investment Property	**$ 5,000**
Plant and Equipment	**$ 5,000**
Infrastructure - Roads, Bridges and Drainage	**$ 5,000**
Water	**$ 5,000**
Sewerage	**$ 5,000**
Site Improvements	**$ 5,000**
Intangible Assets	**$ 5,000**

Without these thresholds, it would be administratively onerous to record all information considered to be capital. By strictly applying the above thresholds, on the basis of materiality, the relevant decision makers will be provided with relevant financial information.

6.6 Asset recognition date

Assets shall be recognised and depreciated from the following times:

Asset Type	Recognition Date
Individual Assets	Invoice or delivery date
Network Assets	Date of As Constructed plans
Donated Infrastructure	On maintenance date
Buildings/Infrastructure/Site Improvements	As constructed date, delivery date or contract date

6.7 Network assets

A network is a grouping of multiple assets that are individually below the capitalisation threshold. These assets perform a whole service and require recognition in the financial statements due to their collective value

6.8 Capital expenditure

Capital expenditure can relate to new or existing assets. Expenditure is capital expenditure if it satisfies the following two criteria:

1. The expenditure is above the capitalisation threshold.
2. The expenditure is used for one of the following applications:
   - NEW – Expenditure which creates a new asset that did not exist beforehand.
   - UPGRADE – Expenditure for expansion. That is it enhances an existing asset to provide additional service capability or a higher level of service or which extends the life of an asset beyond that which it had originally.
   - RENEWAL – Expenditure on an existing asset, which restores the original service potential or which extends the life of the asset beyond which it had originally. This includes replacement expenditure.

Expenditure transactions that do not meet the above classification and are awaiting capitalisation will be expensed in the financial statements when identified.

6.9 Management of work in progress

Work in progress balances are to be reviewed at least quarterly 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.

After an asset is reported as complete and has been capitalised, all further costs will be subject to a test of materiality vs the burden of administration to determine if the costs post capitalisation will be capitalised or expensed.

6.10 Useful lives and depreciation

Determining the useful life of conventional assets such as plant and equipment is not generally difficult as life cycle information is available. Many infrastructure assets are so long lived that the information and experience needed to accurately predict asset lives is not readily available. In the absence of such information, MRC's assets are to be given the longest sustainable life possible and conventional assets are to be given useful lives consistent with industry standards. Asset Owners will review the remaining useful lives of assets on an annual basis.

Asset owners will also identify, on an annual basis, those assets that will not be replaced upon the expiration of their life and/or assets that would only be replaced if MRC received a subsidy or grant for the replacement of the particular asset. In those cases, MRC may elect not to fund all or part of the depreciation on those assets.

6.11 Asset disposal

Disposal of assets shall be approved through capital approval process as part of submitted business case and subject to the Asset Disposal Policy. Authority to dispose of an asset shall be aligned with the financial delegation for procurement.

Where physical non–current assets are disposed of during the financial period, the profit or loss on disposal of the asset will be taken into account in the financial statements.

Where an asset ceases to retain a future economic benefit to MRC, due to loss, theft, damage, obsolescence or other factors, the value of the asset will be written down to a nil value and if appropriate disposed of in the period that the loss occurs.

If the asset being written-off has been the subject of a theft or is unaccounted for, there may be a requirement to also report this to the Queensland Audit Office in accordance with Section 307A of the *Local Government Regulation 2012.*

All assets derecognised from the asset register require authorisation by the respective asset owner in line with the Asset Disposal Policy.

Partial derecognition of an infrastructure assets is to occur whenever:

- A significant component or section of an infrastructure asset is destroyed, abandoned or decommissioned with no future 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.

6.12 Asset impairment

All assets are to be reviewed annually for impairment.

6.13 Asset revaluation

All assets revalued at fair value are subject to the comprehensive revaluation process to ensure materially accurate representation of the carrying value.

With exception of assets that remain valued at cost, a full revaluation is required to be undertaken on a regular basis to ensure the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue to ensure the carrying amount is not materially different to the fair value.

To calculate fair value pursuant to Australian Accounting Standards Board AASB13 Fair Value Measurement (AASB13), information must be obtained, and / or assumptions made about a range of factors, including but not limited to:

- the characteristics e.g. the condition and location of the asset;
- which market a sale of that asset would take place in;
- who would buy the asset and what they would take into account;
- what is the highest and best use for the asset; and
- which costs are to be taken into account

MRC will obtain and review relevant annual indices per asset class to determine and assess material movement in fair value. For the purposes of audited financial statements, CPI is not an appropriate index for the revaluation of non-current physical assets.

7.0 Review of Policy

This policy will be reviewed when any of the following occur;

1. The related documents are amended or replaced.
2. Other circumstances as determined from time to time by resolution of Council.

Notwithstanding the above, this policy is to be reviewed every three years.

Version Control:

Version	Reason / Trigger	Change	Endorsed / Reviewed	Date
1	Review of Policy	Policy rewritten	Endorsed	14/12/2106
2	Review of Policy	Removal of obsolete asset classes and updated to reference Asset Disposal policy	Adopted by Council	10/07/2019