

Fixed Asset Accounting Guidelines

Directorate:	Corporate Services	Responsible Officer:	Manager Financial Services
		Last Adopted by EMT	4 June 2019
Review Period:	Annually	Next Review:	May 2020

1. Purpose

This guideline is designed to provide consistency regarding the classification and capitalisation of Council's assets.

This revision of the Fixed Asset Accounting Guideline is effective from 1 July 2019.

2. Background

Australian Accounting Standards, including AASB 116 "Property, Plant and Equipment", 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. Non-current physical assets managed by Council include roads, bridges, footpaths, drains, parks and buildings used by the community.

This Fixed Asset Guidelines document is designed to provide a framework for staff when classifying expenditure in the financial asset register/system. It establishes the capitalisation criteria at the point of recognition of an asset.

The recording of expenditure as an asset means that it is recorded in the Council's Balance Sheet and the details are entered into the corporate asset register. The process is often referred to as capitalisation. Such expenditure on assets is referred to as capital expenditure.

Importantly, capital expenditure is divided between renewal, upgrade, expansion and new expenditure classifications. This distinction provides information to assist the organisation to determine whether it is maintaining assets to a sustainable level of service.

3. Scope

The following guidelines apply for the capitalisation and recording of assets to Council's asset register.

4. References

- Local Government Act 1989
- Local Government (Planning and Reporting) Regulations 2014
- Annual Budget
- Annual Financial Statements (Local Government Model Financial Report - LGMFR)
- Australian Accounting Standards
- Asset Accounting Policy
- Disposal or Sale of Council Asset Policy

5. 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, renewal or expansion 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.

6. Asset classification

The Local Government (Planning and Reporting) Regulations 2014 require the financial statements of Council to be prepared in accordance with the Local Government Model Financial Report (LGMFR). The LGMFR specifies certain fixed asset categories and classes in the Statement of Capital Works and fixed asset disclosure notes. The asset categories and classes are outlined in **Appendix A** of the Fixed Asset Accounting Policy including any assumptions as well as the measurement basis of each asset class.

The asset classifications are designed to provide guidance to finance and asset management processes and systems. The classification also provides an indicative threshold limit for capitalisation to Council's asset register.

6.1. Non-current assets held for sale

Land and/or buildings held for immediate sale in its present condition. The sale must be highly probable. Land and/or buildings classified as non-current assets held for sale are carried at lower of the carrying amount or fair value less costs to sell.

7. Financial measurement of assets

7.1. Asset recognition

An item of property, plant and equipment, infrastructure acquired at a cost that qualifies for recognition as an asset shall be measured at its cost (excluding GST)¹. Cost elements include:

- Purchase price
- Directly attributable costs
- Restoration costs.

The purchase price (whether bought or constructed) includes import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. It is calculated after eliminating internal profits and does not include abnormal amounts of wasted materials, labour or other resources. It is not necessary for cash payment to have occurred. That is, accrued expenditure can be capitalised if the asset is completed.

Also included in the cost of each asset are all direct and attributable costs that were necessary to bring the asset to the location and condition necessary for its intended use².

Examples of directly attributable costs are:

- Employee benefit costs arising directly from the construction or acquisition of the asset
- Site preparation costs
- Initial delivery and handling costs
- Installation and assembly costs
- Costs of testing whether the asset is functioning properly
- Professional fees.

Examples of the costs of acquisition of construction projects includes:

- Direct labour
- Direct materials
- Plant hire
- Labour oncosts
- Design and technical assistance
- Project overheads
- Costs of trials and testing.

The cost of an asset also includes restoration costs, the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located – particularly relevant for landfill operations.

Where an asset(s) is traded in, the cost of the acquired asset is recorded as the cash amount plus the trade-in value obtained for the asset traded in.

Assets which satisfy the recognition criteria and are acquired at no cost, or for nominal consideration (eg – gifted assets), are to be recognised at their fair values. The amount of the fair value will be recognised as revenue in the financial result of the reporting period based on currently assessed replacement rates or developer costs (whichever is the best information source available at the time of acquisition). Assets purchased through Council's innovation fund (eg – Optus) are an example of assets acquired at no cost. The IT department retains records of these gifted assets and advises the Finance department of gifted assets received. **Land under roads**

¹ AASB 116, "Property, Plant and Equipment", paragraph 15.

² AASB 116, "Property, Plant and Equipment", paragraphs 16 & 17.

In accordance with options available under Australian Accounting Standards, Council has opted to recognise all land under roads acquired (or where title has transferred to Council) after 30 June 2008 using the cost basis. Council does not recognise land under roads that it controlled prior to that period in its financial report.

New land under road (LUR) assets recognised are generally gifted to Council from new subdivisions, so there is no purchase consideration. In determining the fair value of acquisitions of LUR, Council will use a municipal-wide average site value rate per square metre discounted by the following percentages:

- 85% discount for a road reserve in a rural neighbourhood.
- 90% discount for a road reserve in an industrial neighbourhood.
- 90% discount for a road reserve in a commercial neighbourhood.
- 95% discount for a road reserve in a residential neighbourhood.

7.2. Capital vs operating costs

7.2.1. Capital costs

Capital expenditure creates a new asset or extends an asset to a new group of users. Capital expenditure for existing assets upgrades its standard to provide a higher level of service or it extends its useful life. Future economic benefits must extend over a period of greater than one year to justify capitalisation or recognition in the Balance Sheet.

Criteria for capital costs

The criteria to be applied to determine whether costs should be capitalised is whether, when compared to the original asset, the expenditure:

- Is material (meets the capitalisation threshold).
- Extends the useful life of the asset.
- Provides additional economic benefits or service potential.

Types of capital expenditure^{3 4}

<p><i>New asset expenditure</i></p>	<p><i>Expenditure that creates a new asset that provides a service that does not currently exist.</i></p> <p>Examples include constructing a new building in a location which previously did not have a building or purchasing a new type of equipment not previously owned..</p>
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³ Local Government (Planning and Reporting) Regulations 2014, definitions

⁴ Local Government Asset Management Better Practice Guide, Local Government Victoria, 2015

<i>Asset renewal expenditure</i>	<p><i>Expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability.</i></p> <p>Renewal or replacement of an existing asset represents the complete or piecemeal refurbishment or replacement, which extends the functional use of an existing asset. It returns the service potential or the life of the asset to that which it had originally. It represents a 'like for like' replacement. Examples include resurfacing a material part of a road network, replacing a material section of a drainage network with pipes of the same capacity, resurfacing an oval and replacement of an internal wall in a building..</p>
<i>Asset upgrade expenditure</i>	<p><i>Expenditure that:</i></p> <p>(a) <i>Enhances an existing asset to provide a higher level of service, or</i> (b) <i>Increases the life of the asset to beyond its original life.</i></p> <p>Upgrade expenditure is discretionary and often does not result in additional revenue unless direct user charges apply. It will increase operating and maintenance expenditure in the future because of the increase in the Council's asset base. Examples include replacing a drainage pipe with a larger diameter pipe, adding a lane to an existing road, enlarging a grandstand at a sporting facility, or replacing a gravel path surface with an asphalt path.</p>
<i>Asset expansion expenditure</i>	<p><i>Expenditure that extends the capacity of an existing asset to provide benefits to new users at the same standard as is provided to existing beneficiaries.</i></p> <p>Discretionary expenditure. Examples include extending a drainage or road network.</p>

7.2.2. Operating costs

Asset operations refer to the day-to-day running and availability of the asset.

Operational costs consider working hours, cleaning, and qualifications needed for operation, energy management, programming of down time, etc. It refers primarily to dynamic assets such as motor vehicles, plant, machinery and equipment but can provide information on strategies for all asset operations.

For the short-lived dynamic class of assets, the operational and upkeep costs (including recurrent maintenance expenditure) represent a significant proportion of the total lifecycle costs. Therefore, the day-to-day efficiencies with which operations are carried out, are important in optimising the overall lifecycle cost of the asset.

The operational costs must be factored into the total asset costs and they will be budgeted for annually.

Maintenance and repair costs

Expenditure incurred as a result of actions undertaken to service or repair an existing asset, so that the asset's intended use can continue.

The amount of the repairs and maintenance expenditure incurred is dependent on the value of the asset being serviced/repared. There are no specific quantitative guidelines. A monthly review of operating expenditure accounts disclosed in the 'materials and services' category of the Financial Statements (excluding utilities) is conducted to ensure correct classification of operating items and to ensure capital items over the relevant capitalisation threshold but allocated to an operating expense account are captured in the asset register.

Repairs and maintenance expenditure **restores the wear and tear** on an existing asset. It does **not**:

- Increase or restore service potential
- Increase or restore the average useful life of an asset
- Prevent overall asset decline.

Examples include repairing potholes or sealing cracks in a road pavement, grinding lips from footpaths, pruning and watering trees, grass cutting, servicing of plant and equipment, cleaning carpets, clearing drains, top dressing an oval and grading a gravel road.

Repairs and maintenance costs are accounted for as operating expenditure.

7.2.3. Guidelines for classification of expenditure

The following examples are designed to provide guidance for the identification of capital (renewal, upgrade, expansion and new) compared to operational (operations and maintenance) expenditure.

Asset class	Operating / maintenance	Capital new	Capital renewal	Capital upgrade	Capital expansion
Land	Rates	New land acquisition.	N/A	N/A	N/A
Buildings	Repairs to building assets such as structural repairs, repainting, pest control, security, cleaning and utility costs.	New building.	Replacement of entire structure with same standard. Refurbishment of a kitchen to a modern equivalent standard.	Structure extensions or enhancements (providing a higher level of service). For example, changing a domestic kitchen to a commercial kitchen.	Extension of building to provide benefits to a new set of users (additional rooms, larger space, etc).

Asset class	Operating / maintenance	Capital new	Capital renewal	Capital upgrade	Capital expansion
Plant and equipment	Replacement of major components (engine, transmission), repairs, extended warranty payments.	New vehicle or equipment.	Replacement of existing plant to the same standard.	Upgrade of existing equipment with more advanced equipment (higher standard).	Remodelling of equipment to provide benefits to a new set of users.
Roads and off-street car parks	Pothole repair, grading of gravel road, minor surface treatments, crack sealing, patching, linemarking, tactiles, stenciling, street sweeping.	New road, kerb and channel.	Road resurfacing to the same standard.	Road widening. Car park extension. Changing a gravel road to a sealed road.	Refurbishment works to provide benefits to a new set of users.
Footpaths and cycleways	Nature strip works, linemarking.	New sealed path.	Scheduled patching prior to resurfacing. Pavement replacement/ reconstruct main (entire) asset to the same standard.	Widening of the path. Extension of the paved area.	Refurbishment works to provide benefits to a new set of users.
Drains	Pipe repair, pit repair, cleaning, inspection of a drainage pipe.	New drain.	Replacement of complete pit to the same standard.	Replacement of complete pit to a higher standard (eg – larger pipe).	Refurbishment works to provide benefits to a new set of users.
Recreational, leisure and community facilities	Patching, crack filling of pitches, courts, top dressing of ovals, condition inspections.	New court or field.	Replacement of a grass sports field with a grass sports field.	Replacement of entire field or playground to a higher standard (eg - replacement of a grass sports field with a synthetic turf sports field).	Refurbishment works to provide benefits to a new set of users.
Parks, open space and streetscapes	Pruning, watering, fertiliser.	New open space furniture.	Replacement of furniture.	Replacement of parking machines to a higher standard.	Refurbishment works to provide benefits to a new set of users.

7.2.5 Asset registers

Asset details shall be kept in Council's financial asset registers, maintained mainly in Conquest. Some departmental asset registers are also maintained (such as AusFleet). Annual reconciliations between the financial asset registers and AusFleet will be conducted, to ensure the accuracy of the financial asset registers.

Recording of assets in Conquest asset management system

In general, each individual asset purchased or constructed is recorded separately in Conquest.

Where the asset is part of a network infrastructure asset, such as footpaths, roads and drainage, a separate asset is recorded for each segment of that network. The definition of the segment depends on the type of asset.

Where more than one asset is purchased as part of a bulk transaction, such as six tables, one asset will be recorded with a quantity of six units.

For some types of assets, a 'parent and child' relationship process will be used for asset recording in Conquest. This will apply to the following asset types: land under roads, litter bins, open space furniture and signs. In this process, there will be a 'parent' asset recorded:

- for each financial year where the asset type is depreciable (e.g. street seats 2016-17), or
- for the asset type (e.g. land under roads) where the asset type is not depreciable.

The value of each addition is recorded against the 'parent' asset and a 'child' is created for each addition to enable location and other information (barcode reference) to be attributed to each 'child' item. The 'parent' asset maintains the valuation of the asset type for the whole of Council or the whole of property, whilst the non-valued 'child' assets record the individual asset details. The addition journal in the 'parent' asset is recorded with a reference to the relevant 'child' asset. This process will enable periodic reconciliation and auditing.

7.2.6 Assets contributed by Development Contribution Plans (DCPs)

The value and details of assets contributed by DCPs will be assessed and reconciled on an annual basis.

7.2.7 Asset recognition dates

Asset type	Date of recognition
Internally generated civil and landscape assets or assets gifted from developers	Practical completion date (at this point Council owns the asset and recognises it, even though it may be subject to a maintenance period).
Land – acquisition or gifted	Title date.
Non-internally generated assets	Date of delivery or date of purchase/invoice

Where the date of recognition occurred in a prior period and the asset has not yet been recognised, this is a prior period error. AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' requires material prior period errors to be retrospectively corrected in the first set of financial statements after discovery, by restating the comparative amounts in the period in which the error occurred or if the error occurred earlier, by restating the opening balances of the earliest period presented⁵.

"Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements"⁶. Materiality depends on the size and/or nature of the omission. Therefore, the cumulative total asset value of prior period errors will be assessed when determining materiality. Where the total value of prior period errors is not material, the assets will be recognised as non-monetary asset contribution income in the current financial year.

The table below summarises the accounting treatment and journal entries of material prior period errors.

Date of recognition	Accounting treatment	Journal entries
Before 1 July of the prior financial year	Adjust against opening equity of the prior financial year	DR Fixed Assets CR Accumulated Surplus – Prior Year Adjustment <i>(prior year)</i>
Between 1 July and 30 June of the prior financial year	Adjust against opening equity of the current financial year	DR Fixed Assets CR Accumulated Surplus – Prior Year Adjustment <i>(current year)</i>
Between 1 July and 30 June of the current financial year	Current year income	DR Fixed Assets CR Non-Monetary Asset Contributions <i>(current year)</i>

⁵ AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 42.

⁶ AASB 101 Presentation of Financial Statements, paragraph 7.

8. 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.

8.1 Under capitalisation threshold

Expenditure that does not exceed the capitalisation threshold for the relevant class of assets in the table below, is recognised as operating expenditure for the period.

Assets purchased in a group - exception

In certain situations, there is an exception to this rule - where a group of separately identifiable like assets are purchased together (for example, bike racks). In this situation, if the aggregate cost of the asset group exceeds the capitalisation threshold for the relevant asset class, the assets are capitalised as a group in the fixed asset register. This occurs even if the individual cost of each asset is less than the relevant capitalisation threshold.

Please refer to **Appendix A** of the Fixed Asset Accounting Policy for details of the capitalisation thresholds applicable to each class/sub-class of assets.

9. Asset disposal and write-off

9.1. Disposal and write-off guidelines

The best value outcome to Council and disposal method must be the major considerations when disposing of assets. Asset disposal should be based on a fair market value for the asset, given current market value and condition of the asset. It is also vital that the procedure be conducted in an efficient, effective and transparent manner in order to demonstrate the accountability and responsibility of Council to ratepayers.

In the interests of promoting probity, fair dealing and openness, Council may only sell or otherwise transfer assets to staff or Councillors if the transfer is based on fair market value, is specifically authorised by the Chief Executive Officer and is in accordance with the asset disposal procedures. This allows staff or Councillors to purchase items at auction or by negotiation with the purchaser of goods sold by Council. Where the sale is to a 'Responsible Person' and of a material value, then the matter is to be disclosed in the Annual Report as a Related Party transaction.

Reasons for asset disposal or write off may include (but are not limited to):

- No longer required or inappropriate for ongoing use.
- Surplus to current or immediately foreseeable needs.
- Part of an asset replacement program.
- Unserviceable or beyond economic repair.
- Technologically obsolete and operationally inefficient.

Financial disposal

The Finance Department is to be advised of any asset disposals or trade-ins of old assets. Where an asset is replaced, the original asset is disposed of and the cost of the new asset is recognised.

The carrying amount of an item of property, infrastructure, plant and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

All assets sold or scrapped are required to be written out of general ledgers and asset registers, and the profits or losses on disposal are recognised as a revenue or expense in the Income Statement.

The date of disposal for revenue recognition purposes occurs when the significant risks and rewards of ownership of the asset has transferred to the buyer (such as the date of legal title transfer or the passing of the possession to the buyer)⁷.

Any credit held in an asset revaluation reserve in relation to an asset which has been disposed or derecognised shall be transferred to accumulated surplus, so that only unrealised gains are held in the asset revaluation reserve. Transfers from the revaluation reserve to retained earnings are not made through the profit or loss.

⁷ AASB 118, "Revenue", paragraph 14-15

Options for disposal of assets

Assets are to be disposed of in accordance with Council's *Disposal or Sale of Assets* policy, where applicable. Acceptable methods of disposal are:

- Sale by public tender
- Invitation to offer
- eBay
- Direct negotiation with potential buyers
- Donation, or discounted sale, to a community service organisation or charity
- Private sale by an agent acting for Council
- Trade in
- Internal disposal
- Replacement of infrastructure assets as part of capital works projects
- Junked or destroyed.

eBay (or equivalent)

For items estimated to be below \$5,000 and requiring disposal, a report and picture may be forwarded to the Contracts unit in People and Procurement for disposal via eBay.

The item's picture and description is to be posted on eBay (or equivalent). The following points will apply:

- All auctions will be open for a minimum of 21 days or in line with standard tender practices.
- The reserve price will be the estimated cost of disposal.
- Payment will be through PayPal.
- The auction process will be run by the Contracts unit.
- The highest bidder wins.

Sales through eBay (or equivalent) are open to all Council staff and Councillors except for members of the Contracts unit.

The choice of the most appropriate disposal method will be influenced by a number of factors such as:

- The nature and condition of the asset
- Value of the asset
- Location
- Transportation requirements.

9.2. Disposal and write off – specific asset classes

Council's *Disposal or Sale of Council Assets* policy specifies details of the process to be applied for the disposal and application of the proceeds thereof for:

- Land (including Council owned land, public open space and discontinued roads)
- Plant and equipment

For the remaining asset classes (such as furniture and fittings, information technology equipment, street and park furniture) the sale or transfer of assets to staff or Councillors will only be considered if the transfer is based on fair market value and is specifically authorised by the Chief Executive Officer.

9.3. Write offs relating to asset renewal or replacement

Building and infrastructure assets are generally renewed when they are nearing the end of their useful life, so they are likely to either be fully depreciated or to have a relatively small written down value. Given the written down value amount of the asset being renewed is likely to be immaterial, a disposal of the portion of the asset being replaced will be written off in the asset register in accordance with the following guideline. Where the portion of the asset being replaced does not meet this threshold, the capital works will be added to the existing asset and the remaining useful life will be reviewed and extended if required.

Generally, plant and equipment assets are not subject to capital works and are wholly replaced.

Full disposal (replacement)

If the value of the capital works exceeds the current replacement cost value (note 1 below) of the asset, then the asset being replaced will be fully written off and a new asset will be recorded on Council's asset register.

Partial write off

Where the value of renewal works is not greater than the replacement cost value (note 1 below) of the asset being renewed, but is greater than the proportion (%) stipulated in the table below, a partial disposal of the asset will be processed as calculated by the following formula:

Value of capital works / Replacement cost value of the asset being renewed

Asset category	Capital works proportion
Property	50%
Infrastructure	25%

Where a partial write off occurs, the capital works will then be added to the existing asset (after the disposal is processed) and the remaining useful life will be reassessed and extended if required in accordance with a similar proportion to the disposal).

Notes:

1. The replacement cost value in Conquest is the sum of the following Conquest fields - 'Value' and 'Accumulated Capital Works'.
2. Where measurement information is readily available regarding the capital works and disposal of the relevant asset, that information can be used in accordance with the above stated percentages instead of the financial proportion calculation.

10. Asset depreciation guidelines

10.1. Depreciation guidelines

All assets represent depreciable assets, except for land assets (including land under roads) and art works. Assets shall be depreciated in accordance with their useful lives. The straight-line method of depreciation will be adopted for all asset classes.

Depreciation shall commence at the time when the asset is first in the location and condition necessary for its intended use.

Depreciation shall cease at the earlier of the date that the asset is classified as held for sale in accordance with AASB 5 “Non-Current Assets Held for Sale and Discontinued Operations”, and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use, unless it is fully depreciated.

Those depreciable assets, which do not possess a depreciable amount, shall not be depreciated. Expenditure on enhancements or upgrades to an existing asset shall be depreciated, together with the undepreciated balance, over the remaining useful life of the asset.

The useful lives of each asset class shall be reassessed each year under the auspices of the Manager Financial Services. Any reassessments shall be adequately disclosed in the Financial Statements and shall be presented to the Audit Advisory Committee for notation.

Any change in depreciation rates must be accounted for as a change in accounting estimate. The effect of a change in depreciation rates/useful lives must be recognised prospectively. Any change in depreciation rates will be effective from 1 July of the year in question. The remaining useful life of any individual asset needs to be monitored based on actual experience in terms of physical wear and tear and obsolescence. Any changes in the use of assets that may affect their useful life and condition assessments will also be taken into account. Any required changes to remaining useful lives will be considered annually (generally mid year) and this change is updated on the relevant asset system at the time. However, the useful life of the asset class is not changed, unless it is considered inaccurate on the whole asset class basis.

10.2. Depreciation calculation

Those assets, which are subject to wear and tear, commercial or technical obsolescence, require the recognition of depreciation to reflect the limited useful life of the asset.

The decline in service potential of an asset is recognised in the Financial Statements through depreciation, which is a systematic charge against revenue of the recorded value of the asset over its useful life. The systematic depreciation charge can be calculated using either of the following methods:

$\frac{\text{Written down value /}}{\text{Remaining useful life}}$	or	$\text{Cost} \times \text{Depreciation rate}$
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10.3. Asset useful lives

Please refer to **Appendix A** of the Fixed Asset Accounting Policy for details of the useful lives applied to each class/sub-class of assets.

11. Revaluation of fixed assets

11.1. Guidelines

Subsequent to the initial recognition of assets and additions at cost, all assets are measured at fair value except for:

- plant and equipment
- recreational, leisure and community facilities
- parks, open space and streetscapes
- land under roads
- leasehold improvements
- work in progress

Fair value for most asset categories is represented by their current replacement cost less accumulated depreciation.

Where a class of non-current assets is measured on the fair value basis, revaluations must 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 assets are revalued, the entire class asset to which that asset belongs shall be revalued. Valuation assessments are carried out by Council each year to ensure that each asset category is represented at fair value at the reporting date. Formal revaluations are generally carried out every two years for land and buildings by an independent valuer (managed by the Finance department). Council uses index movements to establish fair value in the years between formal valuations. Council's internal experts or independent valuers carry out the valuation of infrastructure assets measured at fair value. Where the carrying value materially differs from the fair value, that class of asset is revalued.

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 the profit or loss⁸.

A revaluation decrease shall be recognised in the profit or loss, except to the extent of any credit balance existing in any revaluation reserve in respect of that same class of asset⁹.

When an asset is revalued, 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
- Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation reflects the remaining asset value based on the most recent condition assessment, 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.

⁸ AASB 116, "Property, Plant and Equipment", paragraph Aus39.1.

⁹ AASB 116, "Property, Plant and Equipment", paragraph Aus40.1.

11.2. Basis of measurement

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, 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.

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”¹⁰.

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”¹¹.*

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.

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.
- Ensure that the subsequent carrying values of its revalued assets continue to approximate their fair values”¹².

Fair value is defined in the Australian Accounting Standard Board’s 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”¹³.*

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 asset’s fair value. The market buying price is generally the written down replacement cost particularly for local government infrastructure assets.

¹⁰ AASB 116, “Property, Plant and Equipment”, paragraph 30.

¹¹ AASB 116, “Property, Plant and Equipment”, paragraph 6.

¹² “Local Government: Accounting for non-current physical assets under AASB116. A guide.” Section4.1, Department for Victorian Communities, May 2006.

¹³ AASB 13, “Fair Value Measurement”, Appendix A.

In certain circumstances, such as where fair value cannot be reliably determined using market-based evidence, fair value is consistent with 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"*¹⁴.

Fair value assessments – infrastructure assets

Council's infrastructure asset classes excluding 'Parks, open space and streetscapes' and 'Recreational, leisure and community facilities' are measured on a fair value basis.

Given there is not an active market for infrastructure assets, the fair value of these assets is mainly based on replacement unit rates determined by inputs and assumptions that comply with the 'Green Fields' approach. Council can source fair value unit rates from either internal experts (Asset Management team) or external service providers. Where possible, inputs have been sourced from an objective and observable source, such as the Rawlinsons Construction Handbook.

The 'Green Fields' approach estimates the replacement cost of infrastructure assets as though there is no existing asset in place. That is, it requires:

- a) The need to include sunk costs that will not need to be incurred again. *For example, it is not appropriate to exclude the cost of road earthworks, even though these costs have already been incurred and generally will not be reincurring when the road pavement is subsequently replaced.*
- b) The exclusion of costs for the removal of existing infrastructure. *It does not include destruction/demolition costs of the existing asset. For example, when considering the replacement cost of drainage assets, the costs of excavating the road and costs associated with traffic control, should not be factored in to the calculation. A further example is in relation to road pavement assets, where the replacement cost should be calculated as though the original/existing road was not there.*

In summary, calculation of greenfield rates excludes demolition costs, disposal costs, site restoration costs and built up location costs such as traffic management and night-time penalty rates.

Additional consideration is also given to the costing of capital works projects completed during the financial year, current contract costs and any other relevant information.

Where the calculated replacement unit rate indicates a significant movement (over 50%) from the current valuation and where there is a contract(s) in place for that particular asset class, a contract analysis will be performed. The two replacement unit rates will be compared and considered and the lower valuation approach will generally be adopted.

Council will annually review the movement in infrastructure replacement unit rates to determine whether a material movement has occurred since the last revaluation (performed by Asset Management team and reviewed by Finance department). Where a material movement occurs, the infrastructure asset class will be revalued to the current replacement rate in that financial year.

¹⁴ AASB 116, "Property, Plant and Equipment", Guidance paragraph G5.

Where infrastructure replacement rates are unable to appropriately factor in the specialised and complex nature of a particular asset class (eg. bridges), independent valuer services will be considered and used. In intervening years, the movement in the relevant cost index will be reviewed to ensure that a material movement has not occurred in the fair value.

Fair value hierarchy

When measuring fair value, Council is required to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. AASB 13 'Fair Value Measurement' includes a hierarchy that prioritises the inputs in a fair value measurement:

Level	Definition	Example(s)
Level 1	Quoted (unadjusted) market prices in active markets for identical assets.	<ul style="list-style-type: none"> Cash.
Level 2	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.	<ul style="list-style-type: none"> Non-specialised land. Eg: land which is not discounted and where a sufficient volume of sale transaction prices could be observed.
Level 3	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.	<ul style="list-style-type: none"> Specialised land and buildings. Eg: all buildings and specialised land – based on shape, zoning, easement affected, corner, freeway, street frontages, floodway/low lying, tree reserves and drainage reserves. Infrastructure assets Eg: roads, footpaths and drains generally do not have an external market, so the fair value is determined by inputs and assumptions.

Greater disclosures are progressively required for Level 2 and Level 3, due to the use of unobservable inputs.

11.3. Revaluation details

Revaluation model (fair value)	Valuation conducted by and when
Land	<p>Independent fair value valuation to be performed biennially by registered valuer.</p> <p>Land shall generally be valued at market value based on the highest and best use permitted by relevant land planning provisions. Where land use is restricted discount factors are applied to reflect this limitation</p> <p>Specialised land is valued at fair value using site values adjusted for englobo (undeveloped and/or unserviced) characteristics, access rights and private interests of other parties and entitlements of infrastructure assets and services.</p>
Buildings	<p>Independent fair value valuation to be performed biennially by registered valuer.</p> <p>Specialised buildings are valued using a depreciated replacement cost methodology.</p>
Roads, Bridges, Footpaths and cycleways, Drainage, Off street car parks	<p>Fair value generally based on depreciated replacement cost at least every four years (or when a material movement has occurred) by either internal experts or independent valuers.</p>
Investment property	<p>Independent fair value valuation to be performed annually by valuer.</p>

Cost model	Details
Land under roads	<p>Council recognises all land under roads acquired after 30 June 2008 using the cost basis. Council does not recognise land under roads that it controlled prior to that period in its financial report.</p> <p>In determining the fair value of acquisitions of land under roads, the valuation methodology is as follows “the average site value rate per square metre in the municipality discounted by the following percentages:</p> <ul style="list-style-type: none"> • 85% discount for a road reserve in a rural neighbourhood. • 90% discount for a road reserve in an industrial neighbourhood. • 90% discount for a road reserve in a commercial neighbourhood. • 95% discount for a road reserve in a residential neighbourhood.
Plant and equipment, Recreational, leisure and community facilities, Parks, open space and streetscapes	<p>Cost model.</p>

12. Property held for resale

12.1. Guideline

Assets held for sale is a separate asset class subject to accounting standard – AASB 5 “Non-current assets held for sale and discontinued operations”.

Council shall classify an asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use¹⁵. The asset must be available for immediate sale in its present condition and the sale must be highly probable¹⁶.

An asset classified as held for sale will be measured at the lower of its carrying amount and fair value less costs to sell¹⁷.

Council will cease depreciation on any assets classified as held for sale from the date of classification¹⁸.

For a sale to be highly probable:

- Management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to be completed within one year from the date of classification.
- Actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn¹⁹.

12.2. Measurement

Any assets that are classified as held for sale must be valued at fair value less costs to sell, where this value is lower than the current carrying amount. Surplus assets that do not satisfy the criteria to be classified as ‘held for sale’ but which may be sold in the future, must continue to be valued on the same basis as the other non-current assets in the class to which it belongs²⁰.

¹⁵ AASB 5: “Non-Current Assets Held for Sale and Discontinued Operations”, paragraph 6.

¹⁶ AASB 5: “Non-Current Assets Held for Sale and Discontinued Operations”, paragraph 7.

¹⁷ AASB 5: “Non-Current Assets Held for Sale and Discontinued Operations”, paragraph 15.

¹⁸ AASB 5: “Non-Current Assets Held for Sale and Discontinued Operations”, paragraph 25.

¹⁹ AASB 5: “Non-Current Assets Held for Sale and Discontinued Operations”, paragraph 8.

²⁰ Section 3.6 of Guidance Note: Fair Value Asset Valuation Methodologies for Victorian Local Governments, Department of Sustainability, December 2005.

13. Intangible non-current assets

An intangible asset is defined as *“an identifiable non-monetary asset without physical substance”*²¹.

Intangible assets are measured initially at cost²². In respect of not-for-profit entities, where an intangible asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition²³.

After initial recognition, intangible assets shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses²⁴.

²¹ AASB 138: “Intangible Assets”, paragraph 8.

²² AASB 138: “Intangible Assets”, paragraph 24.

²³ AASB 138: “Intangible Assets”, paragraph Aus 24.1.

²⁴ AASB 138: “Intangible Assets”, paragraph 74.

14. Investment property assets

14.1. Guideline

Investment property shall be measured initially at cost (including transaction costs)²⁵. In respect of not-for-profit entities, where an investment property is acquired at no cost or nominal cost, its cost shall be deemed to be its fair value at the date of acquisition²⁶. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefit in excess of the originally assessed performance of the asset will flow to the Council. Subsequent to initial recognition at cost, investment property is carried at fair value, determined annually by independent valuers. Changes to fair value are recorded in the Comprehensive Income Statement in the period that they arise. Investment property are not subject to depreciation. Rental income from the leasing of investment properties is recognised in the Comprehensive Income Statement on a straight line basis over the lease term.

14.2. Definition

AASB 140 “Investment Property” requires that property (land and/or buildings) held for investment purposes is accounted for and disclosed as a separate class of assets from other property. However, whether these examples are in fact investment properties depends on the particular purpose and use by each local government.

Investment property is defined as *“property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:*

- (a) Use in the production or supply of goods and services or for administrative purposes.*
- (b) Sale in the ordinary course of business²⁷.*

For not-for-profit entities, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. If so, this is not investment property and should be accounted for under AASB 116 “Property, Plant and Equipment”. Examples include:

- Property held for strategic purposes.
- Property held to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property²⁸.

²⁵ AASB 140: “Investment Property”, paragraph 20.

²⁶ AASB 140: “Investment Property”, paragraph Aus 20.1.

²⁷ AASB 140, “Investment Property”, paragraph 5.

²⁸ AASB 140, “Investment Property”, paragraph Aus 9.1.

Transfers to or from investment property shall be made only when there is a change in use, evidenced by:

- Commencement of owner-occupation (transfer from investment property to owner occupied property).
- Commencement of development with a view to sale (transfer from investment property to inventories).
- End of owner-occupation (transfer from owner occupied property to investment property).
- Commencement of an operating lease to another party (transfer from inventories to investment property).
- End of construction or development (from development property to investment property)²⁹.

15. Impairment of assets

15.1. Guideline

At each reporting date, Council reviews the carrying value of its assets to determine whether there is any indication that these assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Comprehensive Income Statement.

An impairment loss on a revalued 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.

Council will assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased (ie. look for positive indicators). If any such indication exists, the entity shall estimate the recoverable amount of that asset.

15.2. Measurement

An asset is impaired when its carrying amount exceeds its recoverable amount³⁰.

Carrying amount is "the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon"³¹.

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 not for profit entities this generally means depreciated replacement cost)"³².

²⁹ AASB 140, "Investment Property", paragraph Aus 9.1.

³⁰ AASB 136, "Impairment of Assets", paragraph 8.

³¹ AASB 136, "Impairment of Assets", paragraph 6.

³² AASB 136, "Impairment of Assets", paragraph Aus 32.1

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 benefits³³.

Infrastructure assets are typical examples of such assets, hence, where these assets are already measured at their depreciated replacement cost, the impairment standard has no practical application. The same principle can also be applied in the first instance to certain property assets that generate cash inflows but that do not generate net cash inflows, such as leisure centres, landfills, etc. The prime test is not about generating a commercial return, but what is the purpose and intent of the local government in owning and operating such assets. If assets are held primarily for social or strategic purposes, not for the generation of net cash inflows, it is more likely they will be subject to the deeming provisions of the accounting standards.

For other property assets where the purpose is for generation of net cash inflows, value in use is the present value of the future cash flows expected to be derived from the asset (or cash generating unit).

In assessing whether there is any indication an asset may be impaired, Council shall consider the following indications³⁴:

External

- An asset's market value has declined significantly more than expected.
- Significant technological, market, economic or legal environment changes which adversely affect the asset.
- Increases in market interest rates.

Internal

- The asset has been damaged or is now obsolete.
- Significant changes with an adverse effect have occurred or are expected to occur which will impact the asset (eg – asset will become idle, plans to discontinue or restructure operations, and plans to dispose of the asset).
- Internal reporting indicates the economic performance of the asset is worse or expected to worsen.

At the end of each financial year, Finance staff in conjunction with the responsible Managers will assess Council's assets against the minimum external and internal indicators that indicate the asset may be impaired.

Where an impairment loss is recognised for a particular asset, the carrying amount of that asset is calculated as:

		Asset at cost or valuation
<i>Less</i>		Accumulated depreciation
<i>Less</i>		Accumulated impairment losses
<i>Equals</i>		Carrying amount

³³ "Local Government: Accounting for non-current physical assets under AASB 116. A guide." Section 4.3.1, Department for Victorian Communities, May 2006.

³⁴ AASB 136 "Impairment of Assets", paragraph 12.

16. Consolidated entities

Dandenong Market Pty Ltd (DMPL) is a wholly owned subsidiary of City of Greater Dandenong. DMPL manages the Dandenong Market on the terms set out in a management service agreement which runs concurrently with a 50 year lease agreement and provides for annual agreement extensions at Council's discretion.

From time to time, DMPL will pay for expenditure relating to capital items / capital projects. Where the expenditure relates to minor plant and equipment items, such as chairs, office equipment and IT equipment, these fixed assets will be recognised in the books of DMPL. Where the expenditure is incurred in relation to the Dandenong Market property asset (land, buildings, structures and capital land improvements) owned by Council, DMPL will recognise the expenditure as operating expenditure in its Income Statement. Council will recognise a gifted asset in its books to the extent of the capital improvements to Council's assets.

17. Asset verification and stocktakes

There are various verification processes and compensating controls to confirm that plant and equipment assets are in existence:

Plant, machinery and equipment

An annual stocktake is performed at the Operations Centre to verify the existence of plant and equipment assets on the AusFleet system. The Assets team are responsible for performing a reconciliation between Conquest and the AusFleet system on an annual basis. At routine service intervals, the plant and equipment garaged at off-site locations is reviewed.

Fixtures, fittings and furniture

A detailed inventory of furniture assets at Council's Civic Facilities was recorded during a stocktake conducted in 2018-19. An annual check of this data will occur going forward by the Civic Facilities team.

All electrical equipment is barcoded and subject to safety checks on an annual basis.

It should be noted that this information is not reconciled to the Conquest asset register given that many of these assets will not have met the relevant capitalisation threshold in the Fixed Asset Accounting Policy.

Computers and telecommunications

- All IT assets are given a Council barcode number label.
- Council's mobile device management system is used to manage mobile devices (iphones, ipads and tablets). This system identifies when each device was last logged in to the network, when it was last updated to the newest IOS version and when required, it can track the location of the device. The IT department review the IOS version updates 1-2 times per month. The IT department also reconciles the devices as per the MaaS360 to the IT mobile device asset database on a quarterly basis and investigates any differences.
- The Microsoft System Centre Configuration Manager system is used to manage desktop assets (most of which are leased). On a quarterly basis, the IT department reconciles the IT desktop asset database to the:
 - Leasing company asset list
 - Active directory system
 - Extract from the Microsoft System Centre Configuration Manager.Any differences are investigated.
- For those desktop assets not managed directly by IT, like public access PCs in the library, a list of the library PCs is sent to the Library department each quarter to review and check.
- The IT department also perform ad hoc checks and stocktakes as part of the cyclic replacement program, deployment of applications, patch management and system updates.
- The mobile devices and desktop computers are rolled over frequently (at least every four years) and the old device must be handed in before the new device is given out.
- A reconciliation of the IT asset databases (desktop and mobile devices) to the Conquest asset register is not performed as it is not considered to be an effective exercise due to the high number of assets leased by IT and the large number of IT assets with a value under the capitalisation threshold.

Library resources

- The Library Systems Administrator provides a report on the number of items in the collection and the total value of the collection on a monthly basis so that this can be monitored.
- A non-active stock list is generated for Library staff to search for items that have been inactive for 12 months. If items are found, Librarians assess whether the item is deaccessioned or retained based on set criteria. If items are not found, Library staff mark the item as 'missing'.
- The Library System Administrator also generates reports for items that have a 'missing' status or an 'in transit' status on a monthly basis. Library staff check the shelves for these items. If an item is missing for more than six months, it is deleted from the collection.

The processes and compensating controls listed above are considered sufficient to verify the existence of an appropriate cross section of plant and equipment assets (in particular, ensuring that the higher value items are verified). The cost/benefit analysis of performing a more detailed stocktake process for plant and equipment asset classes is not justified given the low value of many of these assets and the low risk associated with the removal of these items. Additionally, a large number of these low value assets would not meet the relevant capitalisation threshold and would therefore, not be recorded on Council's asset register in accordance with the Fixed Asset Accounting Policy.

18. Related documents

- Fixed Asset Accounting Policy
- Asset Management Policy
- Annual Financial Statements and Local Government Model Financial Report
- Annual Budget
- Audit Reports and Audit Advisory Committee
- Council Plans, including Annual Plan
- Disposal or Sale of Council Assets Policy.