

 Shire of Serpentine Jarrahdale <i>Sustainable. Connected. Thriving!</i>	G009 RECOGNITION OF ASSETS AND DEPRECIATION
Vision Category: Financial Sustainability Focus Area: Responsible Management Objective: Undertake best practice financial and asset management	

Background

The Shire owns, creates, purchases and manages assets and must ensure that effective and accountable systems are in place to safeguard the Shire's resources. This includes the development of appropriate systems to record the location and value of fixed assets acquired or constructed by the Shire. Fundamental considerations in the effective management of fixed assets are the determination of what constitutes a fixed asset, at what threshold value they should be capitalised and how depreciation is to be treated.

Policy

The Shire values all assets by the fair value model, triennially.

Fair value is defined in AASB 13 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.

Fair value is considered to be the best estimate of the price reasonably obtainable in the market at the date of the valuation. It is the most advantageous price reasonably obtainable by the seller and by the buyer.

In determining fair value, there is a presumption that the entity disposing of the asset is a going concern and has no aim to liquidate assets or materially alter the scale of its operations. It is also assumed that the asset is exchanged after an adequate period of marketing to obtain its most advantageous price.

A principal test in determining fair value is whether there is an active and liquid market for the asset. Where a quoted market price in such a market is available, that price represents the best evidence of the asset's fair value.

Fair value is also determined in reference to an asset's highest and best use, which results in the highest value.

AASB 116 provides that the fair value of land and buildings is usually determined from market-based evidence and appraisal by professionally qualified valuers, however there is no statutory requirement to use valuers. The fair value of plant and equipment is usually the market value of items as determined by appraisal. Where there is no market-based evidence of fair value because of the specialised nature of property, plant and equipment (and the item is rarely sold), fair value may need to be estimated using an income or a depreciated replacement cost approach. AASB 13 notes that fair-value is a market-based measurement

and not an entity-specific measurement. While market information might be available for some assets and liabilities, market information may not be available for others. Hence another valuation technique may be required. The valuation techniques are:

1. Market approach - valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities or group of assets and liabilities.
2. Cost approach - the amount that would be required currently to replace the service capacity of an asset (also referred to as 'current replacement cost').
3. Income approach - involves converting future amounts (cash flows or income and expense) to a single current (discounted) amount.
4. Depreciated replacement cost - 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.

All new assets are measured initially at their cost of acquisition. Where an asset is acquired at no cost, the cost of the acquisition is deemed to be the asset's fair value.

The cost of acquisition is defined as including the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. When an asset is valued at fair value all assets of that class must be valued using the same method.

Some assets that are "specialised" in nature, market evidence might not be available to guide fair value measurement. Such specialised assets may include infrastructure, land under infrastructure, specialised plant such as that used in waste and recycling facilities, sewerage plants, and historical or cultural assets. AASB 116 recognises the specialised nature of some assets and, as previously mentioned, provides for an income or depreciated replacement cost approach to be used to determine fair value. Note: Land and buildings are separate classes of assets and need to be valued separately.

Revaluation

If a class of assets is valued at fair value, the carrying amount of those assets in the financial statements should not materially differ from the fair value of the assets at the date of reporting. Where a non-current asset is measured at fair value AASB 116 states:

"After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period."

A process of rolling revaluation by asset class is adopted, providing all assets in a class are valued within the same financial year and before the reporting date.

AASB 116 provides significant commentary and guidance on how to deal with an increase or decrease in an asset's carrying amount and depreciation of an asset on revaluation as well as how these should be treated in accounting records and financial reports.

AASB 116 also provides that if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.



The Shire has adopted a phased-in approach over three years with full implementation by 30 June 2015. The Shire has elected to revalue land and buildings and infrastructure assets in alternative years. The following timeframe has been applied:

Financial Year	Asset Group / Resources
2012/13	Plant and equipment
2013/14	Land and buildings (including specialised and non-specialised buildings valued at component level)
2014/15	Infrastructure and all other assets (including intangible, historical and cultural assets, library books, art collections, etc)
Triennially – ongoing	All asset classes revalued on a three-yearly cycle so that plant and equipment is revalued by 30 June 2016 and again by 30 June 2019, and so on, land and buildings by 30 June 2017 and again by 30 June 2020, and so on.

To permit the preparation of statutory financial statements, expenditures incurred by the Shire must be classified as either being 'operational in nature' or being such that they result in the creation of a 'fixed asset'. The manner in which expenditure is classified has a major impact on results disclosed in the Operating Statement and on the financial position disclosed in the Shire's Statement of Financial Position. Those items which are 'capitalised' must be depreciated over their useful life, which is determined according to the particular asset class to which that item belongs. Items that are 'expensed' rather than capitalised are to be included as operating expenditure at the time of incurring the cost.

The nature of the expenditure must be carefully considered to determine whether it creates a new fixed asset or whether it constitutes a repair or maintenance expenditure. Reference to relevant professional accounting standards and practice statements should provide persuasive guidance in this regard.

It is important to effectively balance the administrative workload of recording and maintaining a reliable Asset Register with the risk and compliance issues attaching to the proper classification of capital expenditures. To permit this, expenditure to acquire or enhance an asset should be capitalised if the expenditure is above the following thresholds:

Land	\$1
Artworks	\$5,000
Buildings	\$10,000
Computer Equipment	\$10,000
Furniture	\$10,000
Plant & Equipment	\$10,000
Motor Vehicles	\$10,000
Roads	\$1
Drainage	\$1
Footpaths	\$1
Parks and Reserves	\$10,000

Non-infrastructure assets are capitalised progressively throughout the year, at the time of acquisition or commissioning ready for use. Infrastructure assets are capitalised only at the conclusion of the financial year after the close off of accounts.

Council has elected not to recognise land under roads prior to 1 July 2008. Land under roads will only be recognised when the criteria set in AASB 116 is satisfied.

Separate component parts within a larger asset (for example, an air conditioner or floor coverings within a building) are not capitalised with the larger asset.

For certain readily transferable items of lesser value than the nominated thresholds above, such as mobile telephones, a separate register recording the details, serial numbers and location of the items may be maintained, however the items are not capitalised to the Asset Register nor depreciated.

Depreciation will commence from the date of acquisition or in respect of internally constructed assets, when the asset is first brought into use or held ready for use. Depreciation is recognised on a straight-line basis, using rates which are reviewed each year.

An addition or extension, which becomes an integral part of an existing asset, should be depreciated over the remaining useful life of that asset. An addition or extension, which remains a separate identity and will be capable of being used after the existing asset is disposed of, should be capitalised and depreciated independently.

Assets will be depreciated in accordance with the following schedule:

Land	Not depreciated
Buildings	
Structural	50 years
Internal Fit-Out	15 - 25 years
Mechanical Services	25 – 35 years
Security	15 years
Fire systems	15 years
Other Building Structures	15 – 25 years
Plant and Equipment	5 – 15 years
Motor Vehicles	2 – 5 years
Furniture and Equipment	4 – 10 years
Computer Equipment	2 – 5 years
Roads	
Subgrade	Not depreciated
Pavement	
Unsealed	10 years
Urban and Regional	60 - 100 years
Surface	5 – 20 years
Surface Water Channel	
Kerbing	40 years
Drains	8 - 15 years
Drainage	
Culvert	80 years
Stormwater Drainage	100 years
Footpaths	40 – 80 years
Parks and Reserves	
Land	Not Depreciated
Softscapes	50 years
Hardscapes	40 – 80 years
Reticulation	20 years
Parks Furniture	10 – 20 years
Lighting	15 – 25 years
Other Structures	10 – 40 years

Intangible assets

AASB 138 Intangible Assets defines an intangible asset as “... an identifiable non-monetary asset without physical substance.” An example of a local government intangible asset would be an easement over land. This is an “interest” in land, which is intangible rather than tangible. Most local governments would have easements in their favour, created by a deed between the land owner (grantor) and local government (grantee). Some local governments would have many easements in place and hence have significant intangible assets to consider.

Easements relate to specialised systems on or under the ground (for example, drainage) or exist for access or right-of-way and relate to land owned by a third party. Regulation 16(a)(ii) of the *Local Government (Financial Management) Regulations 1996* currently prevents recognition of land not owned by the local government and would prevent local governments from including easements as assets. However, while land under roads is excluded by regulation principally on the basis that a local government does not have ‘control’ of that land, easements are legal instruments that afford control of the land to local governments. This clear distinction in control between land under roads and easements provides a strong argument for easements to be recognised as assets and valued accordingly.

Other Relevant Policies and Documents

Local Government Act 1995 - Part 6 Financial Management

Work Procedures

Not applicable

Delegations

Not applicable

Policy Adoption and Amendment History

Reviewed/Modified	Minutes Reference	Date	Meeting Type
Adopted	C087/11/00	27/11/2000	Ordinary Council Meeting
Reviewed	SM047/05/04	24/05/2004	Ordinary Council Meeting
Modified (incorporates CSP29)	CGAM050/12/08	15/12/2008	Ordinary Council Meeting
Modified	CGAM091/04/09	21/04/2009	Ordinary Council Meeting
Modified	OCM185/04/13	22/04/2013	Ordinary Council Meeting
Modified	OCM005/07/13	22/7/2013	Ordinary Council Meeting
Modified	OCM165/04/14	28/4/2014	Ordinary Council Meeting
Modified	OCM099/06/15		