Blackall-Tambo
Regional Council

Asset and Service Management Strategy

Policy Number: Stat 7	Effective Date: 15/06/2022
Version Number: Seven	Review Date: 15/06/2024
Policy Compiled by: Asset Officer	Raylee Still
Policy Approved by: Chief Executive Officer	Des Howard

OVERVIEW

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

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

RECOGNITION OF ASSETS

Definition of Non-Current Assets

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

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

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

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

Asset Recognition Principles

Property, plant and equipment is defined in AASB 116 Property, Plant and Equipment as:
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 measure reliably.

Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with AASB 116 when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

AASB 116 does not prescribe the unit of measure for recognition, that is, what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as mould, tools and dies, and to apply the criteria to the aggregate value.

An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of or service an item of property plant and equipment, such as depreciation of right-of-use assets.

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

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

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

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

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

Asset Classes And Thresholds
The following table outlines the prescribed asset classes and their thresholds effective from 1 July 2017.

CLASS	No.	CODE	Thresholds New Assets	Thresholds Existing Assets (major capital works)
LAND	1	LAN	$100	$100
BUILDINGS	2	BLD	$20,000	$10,000
OTHER STRUCTURES	3	OST	$20,000	$10,000
PLANT & EQUIPMENT	4	PEQ	$10,000	$5,000
ROAD INFRASTRUCTURE	5	RD#	$20,000	$10,000
BRIDGES & HYDRAULIC STRUCTURES	6	BRG	$20,000	$10,000

WATER INFRASTRUCTURE	7	WAT	$20,000	$10,000
SEWERAGE INFRASTRUCTURE	8	SEW	$20,000	$10,000

RDR = Roads – Rural, RDU = Roads - Urban

Portable and Attractive Items (including many Floating Plant and Loose Tools)

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

Leased Assets

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

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

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

VALUATION OF ASSETS

Fair Value Basis

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

The term 'fair value' is defined in AASB 13 as being:

> 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.

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

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

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

Land: Land is based on market value.

Buildings and Other Structures:	Valuation is based on current replacement cost. Land Improvements are regarded as Other Structures for accounting purposes.
Plant and Equipment:	Valuation is based on historical cost, unless the item is recognised as a major equipment (>$1 million).
Road Infrastructure:	Valuation is determined on current replacement cost. Stormwater drainage is considered part of Road Infrastructure for accounting purposes.
Bridges and Hydraulic Structures:	Valuation is based on current replacement cost.
Water Infrastructure:	Valuation is based on current replacement cost.
Sewerage Infrastructure:	Valuation is based on current replacement cost.

REVALUATION OF ASSETS

Introduction

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

Comprehensive Revaluations

It is a requirement for Council to have comprehensive revaluations carried out at regular intervals (every 5 years for full comprehensive revaluation) to ensure that the carrying amount of an asset does not differ materially from that which would be determined using fair value at the reporting date.

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

Frequency of Comprehensive Revaluations

AASB 116 Property, Plant and Equipment requires revaluations to be undertaken with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from that which would be determined using fair value at the reporting date. The standard suggests that comprehensive revaluations every three or five years may be sufficient for non-current assets that experience only insignificant changes in fair value.

Interim Revaluations

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

For Land Assets, appropriate valuation indices can be obtained from the Department of Environment and Resource Management. The use of Unimproved Capital Value valuations provided by the Department of Environment and Resource Management for rating purposes is not appropriate for financial statement purposes.

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

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

Revaluation Schedule
The table below outlines a revaluation schedule for proposed revaluations:

ASSET CLASS	LAST REVALUATION	NEXT REVALUATION
LAND	2020	2025
BUILDINGS	2020	2025
PLANT & EQUIPMENT	N/A	
ROAD INFRASTRUCTURE	2020	2025
BRIDGES & HYDRAULIC STRUCTURES	2020	2025
WATER INFRASTRUCTURE	2020	2025
SEWERAGE INFRASTRUCTURE	2020	2025

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

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

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

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

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

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

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

DEPRECIATION AND AMORTISATION

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

AASB 116 defines depreciation as:

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

AASB 138 defines amortisation as:

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

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

Depreciation Method
The depreciation methodology for all classes of assets shall be <u>the condition based straight line method</u>.

AASB 116 defines “depreciable amount” as:

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

Useful Life
AASB 116 defines “useful life” as:

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

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

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

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

Useful Life Ranges

ASSET CLASS	LIFE IN YEARS
LAND	Not Depreciated
BUILDINGS	10-80
OTHER STRUCTURES	10-100
PLANT & EQUIPMENT	2-10
ROAD INFRASTRUCTURE	
Seal	10-15
Gravel (Pavement)	7-100
Sub-base Seal	1-30
Sub-base Gravel	40-100
Formation (Sub-grade)	30-100
Kerb & Channel	125-500
Road Culverts	10-80
Bridges	20-80
Earthworks and Road Furniture	30-80
BRIDGES & HYDRAULIC STRUCTURES	20-100
WATER INFRASTRUCTURE	5-80
SEWERAGE INFRASTRUCTURE	5-80

Residual Values

The AASB has re-confirmed the definition of residual values where residual value is restricted to consideration received on disposal. Historically, Council has been applying residual value to infrastructure assets.

The definition of residual value in AASB116 is below:

The *residual value* of an asset is the estimated amount that an entity would currently obtain *from the 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 it's useful life.*

Using ordinary meanings of words, it is clear that the infrastructure assets are not disposed of and are not at the end of their useful life when they have the life extending actions performed on them. Therefore there is no residual value as defined in AASB116 for these assets. The only residual values should be applied to Fleet units which go to auction or trade at the end of their useful life. Consistent with ASB116 definitions and recognition principles, Council has adjusted/removed residual values from assets/asset components where applicable.

Land:	Not depreciated, so no residual value required.
Buildings and Other Structures:	Nil
Plant & Equipment	Disposal value or market value at the end of its

useful life.

Road Infrastructure:	Nil

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

Bridges and Hydraulic Structures:	Nil
Water Infrastructure:	Nil.
Sewerage Infrastructure:	Nil.

DISPOSAL OF ASSETS

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

- On disposal, or
- When no future economic benefits are expected from its use or disposal.
- Disposing of an asset needs to be done as per Council's *Procurement and Disposals Policy* and *Part 3,* Section *277 of the Local Government Regulations 2012*

In accordance with Section 227 of the *Local Government Regulation 2012* Council will dispose valuable non-current assets by auction or inviting tenders.
A valuable non-current asset is—
(a) Land; or
(b) Another non-current asset that has an apparent value that is equal to or more than the following limits;
for plant or equipment—$5,000;
for another type of non-current asset—$10,000

EXEMPTION FROM DISPOSAL BY AUCTION OR TENDER

In accordance with *Local Government Regulation 2012* goods with an apparent value of less than the above thresholds do not have to be auctioned or tendered and can be disposed of at the discretion of the CEO. In exercising this discretion the CEO will have consideration to the following principles:-
(a) Open and effective competition;
(b) The best return for Council;
(c) Environmental protection; and
(d) Ethical behaviour and fair dealing.

EXEMPTION TO DISPOSAL BY AUCTION OR TENDER

In accordance with Section 236 of the *Local Government Regulation 2012* Council may dispose of non-current assets other than by tender or auction if:

(a) The disposal is to a government body; or

(b) The disposal is to a community organisation that is a non-profit entity or exists for a public purpose; or
(c) The non-current asset has been offered for sale by tender or auction but was not sold; and
(d) Is sold for more than the highest tender or auction bid that was received; or
(e) For non-current assets other than land, the disposal is by way of a trade-in for the supply of goods or services to Council.
(f) The Minister exempts Council from complying with section 236 of the *Local Government Regulation 2012.*

[s 236] Local Government Regulation 2012 Division 4
Division 4 Exceptions for valuable non-current asset contracts
(1) Subject to subsections (2) to (4), a local government may dispose of a valuable non-current asset other than by tender or auction if—
(a) the valuable non-current asset— (i) was previously offered for sale by tender or auction but was not sold; and (ii) is sold for more than the highest tender or auction bid that was received;

or (b) the valuable non-current asset is disposed of to— (i) a government agency; or (ii) a community organisation;

or (c) for the disposal of land or an interest in land— (i) the land will not be rateable land after the disposal; or (ii) the land is disposed of to a person whose restored enjoyment of the land is consistent with Aboriginal tradition or Island custom; or (iii) the disposal is for the purpose of renewing the lease of land to the existing tenant of the land; or (iv) the land is disposed of to a person who owns adjoining land if—

(A) the land is not suitable to be offered for disposal by tender or auction for a particular reason, including, for example, the size of the land or the existence of particular infrastructure on the land; and

(B) there is not another person who owns other adjoining land who wishes to acquire the land; and

(C) it is in the public interest to dispose of the land without a tender or auction; and

(D) the disposal is otherwise in accordance with sound contracting principles; or

(v) all or some of the consideration for the disposal is consideration other than money, for example, other land given in exchange for the disposal, if—

(A) it is in the public interest to dispose of the land without a tender or auction; and

(C) the disposal is otherwise in accordance with sound contracting principles; or (vi) the disposal is for the purpose of a lease for a telecommunication tower; or

(vii) the disposal is of an interest in land that is used as an airport or for related purposes if—

(A) it is in the public interest to dispose of the interest in land without a tender or auction; and

(B) the disposal is otherwise in accordance with sound contracting principles; or

(d) for the disposal of a valuable
non-current asset, other than land, by way of a trade-in for the supply of goods or services to the local government—
(i) the supply is, or is to be, made under this part; and
(ii) the disposal is, or is to be, part of the contract for the supply; or

(e) for the disposal of a valuable non-current asset by the grant of a lease—the grant of the lease has been previously offered by tender or auction, but a lease has not been entered into; or

(f) the Minister exempts the local government from complying with section 227.

(2) An exception mentioned in subsection (1)(a) to (e) applies to a local government disposing of a valuable non-current asset only if, before the disposal, the local government has decided, by resolution, that the exception may apply to the local government on the disposal of a valuable non-current asset other than by tender or auction.

(3) A local government may only dispose of land or an interest in land under this section if the consideration for the disposal would be equal to, or more than, the market value of the land or the interest in land, including the market value of any improvements on the land.

(4) However, subsection (3) does not apply if the land or interest in land is disposed of under subsection (1)(b), (1)(c)(ii) or (1)(f).

(5) For subsection (3), a written report about the market value of land or an interest in land from a valuer registered under the Valuers Registration Act 1992 who is not an employee of the local government is evidence of the market value of the land or the interest in land.

(6) An exemption under subsection (1)(f) may be given subject to conditions.

RECORDS
When completed and approved the original, signed hard copy of the policy is filed in the Master File. Electronic copies are saved in the appropriately labelled folder in Magiq.