Fixed Asset Financial Reporting Policy
1 **Purpose**

1.1 The Fixed Asset Financial Reporting Policy (the “Policy”) applies to the provisions of the Local Government Act 1999 (the Act) Section 124 (Accounting Records to be Kept) regarding Council’s Fixed Assets and how financial information pertaining to Fixed Asset transactions and reconciliations are undertaken across all Council operations.

1.2 This Policy also underpins how Council’s administration treats various categories of transactions recorded on its fixed asset register and fixed asset transactions affecting other subsidiary ledgers, subordinate to the General Ledger, culminating in their publication in the annual financial statements required under Section 127 (Financial Statements) of the Act.
2 Definitions

2.1 For the purpose of this Policy:

2.1.1 One “period” means the duration of one financial year, not necessarily in line with the traditional financial statement reporting period commencing 1st July to 30th June the following calendar year.

2.1.2 “Carrying amount” is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

2.1.3 “Cost” is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset.

2.1.4 “Council” means the City of Prospect.

2.1.5 “Depreciable amount” is the cost of an asset, or other amount substituted for cost, less its residual value.

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

2.1.7 “Fixed Asset” means property, plant or equipment Council employs to derive benefit for the Prospect community.

2.1.8 An “impairment loss” is the amount by which the carrying amount of an asset exceeds its recoverable amount.

2.1.9 “Legislation” means all relevant State and Commonwealth legislation and Council By-Laws.

2.1.10 “Recoverable amount” is the higher of an asset’s fair value less costs to sell and its value in use.

2.1.11 “Residual value” of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal.

2.2 The Australian Accounting Standards Board defines property, plant and equipment in AASB 116 Property, Plant and Equipment as items held by an organisation that are;

2.2.1 held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

2.2.2 expected to be used during more than one period.AASB 116 also defines a not-for-profit entity, specifically applicable to Council and its operations as;

2.2.3 an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent and each of the entities that it controls.
2.2.4 Examples of Property, Plant and Equipment that may be held by not-for-profit public sector entities include but are not limited to infrastructure, cultural, community and heritage assets.

2.3 Property, plant and equipment can also be characterised as fixed assets.

2.4 A fixed asset can also be described as an operating unit whose components perform a specific function as a cohesive whole to provide services on a continuing basis.

3 Scope

3.1 This Policy applies to the provisions of the Local Government Act 1999 (the Act) Section 124 (Accounting Records to be Kept) regarding Council’s Fixed Assets and how financial information pertaining to Fixed Asset transactions and reconciliations are undertaken across all Council operations.

4 Legislative and Corporate Requirements

4.1 This Policy forms part of the Internal Financial Control Framework as a direct consequence of the provisions of Section 125 (Internal Control Policies) of the Act for South Australia.

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4.3 Section 127 (Financial Statements) of the Act prescribes a Council to produce annual financial statements in accordance with standards required by the regulations.

4.4 In addition, Section 129 (Conduct of Audit) of the Act requires an external auditor to form an opinion as to whether there is sufficient evidence providing reasonable assurance that the financial transactions of the council have been conducted properly and in accordance with law.

4.5 This has been further elaborated upon within Local Government (Financial Management) Regulations 2011 (the Regulations) at Part 3 – Accounting Principles, Part 4 – Financial Statements and Part 6 – Audit clause 19(b).

4.6 Part 3 of the Regulations prescribes the standards adopted are the Australian Accounting Standards overseen by the national peak body for accounting policies and principles, the Australian Accounting Standards Board.

4.7 Part 4 of the Regulation prescribes the statements are compiled according to the Model Financial Statements, according to those published by the Local Government Association (LGA) website www.lga.sa.gov.au on an annual basis for administrative adoption.

4.8 In addition, the LGA has published revised Financial Sustainability Information Papers (FSIP) as part of its ongoing Financial Sustainability Program (FSP) with the aim of harmonising high-level policy positions for council administration adoption and use.

4.9 The Information Papers are not statutory measures however they are considered best practice for council administrations to commit to.
5 Policy Statement

5.1 Recognition and Threshold

5.1.1 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

5.1.2 In respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.

5.1.3 AASB 116 provides for a specific example relating to Local Government entities where an asset may be gifted to Council at no or nominal measurable cost. When this occurs, Council’s administration is obliged to recognise the asset at fair value.

5.1.4 AASB 13 Fair Value Measurement defines fair value as;

(1) 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.

5.1.5 Accordingly, any valuation change that takes place at the time of Council acquisition of the asset will be recognised as a revenue or expenditure item and not required to trigger an event requiring the Asset Revaluation Reserve.

5.1.6 However, any revaluations that take place in subsequent reporting periods will trigger an Asset Revaluation Reserve event.

5.1.7 Asset capitalisation threshold values applying to individual classes of assets will be guided by the characteristics of those classes. The LGA Model Financial Statements provide guidance in how these classes are determined.

5.1.8 For an asset to be capitalised its value must breach a cost or fair value threshold.

5.1.9 This principle applies to the total value of all individual parts that form a cohesive asset recognised for reporting purposes.

5.1.10 For instance an asset may consist of numerous individual parts, such as can be found in a piece of equipment, which in isolation may not meet the recognition threshold. In line with AASB 116, this individual component in and of itself may not meet the definition criteria as being able to derive future economic benefit to Council in isolation.

5.1.11 However, if it can be categorised at an aggregated (Group) level as a component of a cohesive asset meeting the definition of Property, Plant and Equipment, then the individual component shall be capitalised as part of the aggregated value of the asset.
5.2 **Cost Elements**

5.2.1 AASB 116 provides guidance on costs that form part of the capitalisation base for an asset. Council shall include these elements when considering capitalising an asset;

(1) The purchase price including duties and non-refundable taxes;

(2) Costs associated with translocating and improving the condition of the asset to perform the desired task Council requires of it;

(3) Dismantling and removal cost estimates associated with rehabilitating a site for which the asset has been located, where the purpose of the asset is not producing inventories for that period.

5.2.2 Examples of attributable costs are site preparation, delivery and handling costs, installation and assembly costs, testing and trial costs (deducting any proceeds received from the sale of those tests or trials) and professional fees such as consulting and contractor costs.

5.2.3 Conversely, Council shall not capitalise costs incurred when opening a new facility or introducing a new product or service including promotional costs, costs of implementing and offering a new product or service, administrations and general overhead costs.

5.2.4 In addition, Council will not capitalise costs incurred in the ongoing use of an asset, even if the asset has been redeployed, or directed towards increasing the facility or capability of the asset to full service or production.

5.2.5 Incidental costs incurred or revenue realised as a result of preparing an asset for its intended use will not be capitalised. An example of an incidental event is the use of land for car-parking before construction commences on a new facility.

5.3 **Cost Measurement**

5.3.1 For the purposes of recording the value of an asset, Council shall use the cash price of the asset at the date of recognition for capitalisation purposes in establishing a carrying amount for the asset to record in its fixed assets register.

5.3.2 If the asset has been acquired by Council in exchange for a material asset other than cash, the cost of the asset acquired shall be recognised at its fair value, if the exchange transaction cannot be commercially substantiated or the value of neither asset can be reliably gained.

5.3.3 Provisions in AASB 116 allow for fair value of the asset acquired in a non-cash transaction as the carrying amount of Council’s asset given up, or the originating asset relinquished.
5.3.4 If Council cannot establish substantial commerciality to an exchange transaction, fair value for the asset received may be calculated as the difference between the cash flows derived from the asset received in the future, as opposed to the corresponding cash flows of the asset relinquished.

5.4 Measurement after Recognition

5.4.1 AASB 116 allows Council the choice of two (2) recognition models in recognising an asset for carrying purposes;

(1) Cost Model – Council may choose to measure an asset at cost less any accumulated depreciation and impairment losses.

(2) Revaluation Model – Council may choose to measure an asset at fair value based on a revalued amount less accumulated depreciation and impairment losses. If Council chooses this method revaluations must be completed regularly to represent the current fair value of the asset in Council’s accounts.

5.4.2 The Local Government (Financial Management) Regulations 2011 (Regulation 12) states that a revaluation of all material non-current assets in accordance with AASB 116. Given the significant carrying value of land and property assets held by Council and the volatility of market influences on these assets, Council will unless otherwise stated;

(1) Use the Revaluation Model for recognising and measuring its assets.

(2) Perform revaluations on those assets 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.

5.4.3 Plant and equipment assets will be recognised using the Cost Model, as these assets in contrast to land and buildings, generally are lower in materiality, have shorter useful lives, and more active secondary markets making cost a reasonable proxy for fair value.

5.4.4 Council will perform revaluations on assets designated in a particular class or group maintained in its fixed assets register or subsidiary ledger. Revaluations will not be undertaken on an individual asset by asset basis.

5.4.5 Asset classes at the highest level shall be reflected in the fixed assets register;

(1) Land and Land Improvements
(2) Buildings and Structures
(3) Infrastructure – Stormwater Drainage
(4) Infrastructure – Roads
(5) Infrastructure – Footpaths
5.4.6 Council shall record revaluation movements at a minimum asset class level.

5.4.7 Resultant asset class revaluations will activate and be recorded against Council’s Asset Revaluation Reserve thereby updating previous revaluation results accumulated in the Reserve.

5.4.8 A corresponding income or expense transaction for the revaluation undertaken in the current financial period will be recorded in the Statement of Comprehensive Income.

5.5 Highest and Best Use

5.5.1 AASB 13 allows consideration for a particular valuation method termed “highest and best use”, if the measurement for an asset cannot be gained via market based method or by cost estimation.

5.5.2 The definition of highest and best use as prescribed by AASB 13 is;

(1) A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

5.5.3 This determination provides Council with the option of hypothesising an alternative use for an asset that may be otherwise employed to undertake a community service oriented task by another market participant or user.

5.5.4 In performing this analysis AASB 13 prescribes Council must consider the following alternative use factors that vary for assets under consideration;

(1) Physically possible to use alternatively;

(2) Legally permissible to consider using alternatively;

(3) Financially feasible to undertake a transaction leading to using it alternatively;

(4) Maximises the economic benefit accruing to an alternative user.

5.5.5 In performing this analysis if Council concedes that any of these factors is not possible then the “highest and best use” method for valuing assets must not be considered.

5.5.6 However, if all factors can be practically hypothesised and affirmed, then the highest and best use method for valuing the particular asset may be considered the optimal method for valuing that asset.
5.6 Depreciation

5.6.1 Council shall recognise an asset’s useful life in its current state by applying depreciation to the asset.

5.6.2 The depreciation charge for each period shall be recognised in the Statement of Comprehensive Income unless it is included in the carrying amount of another asset. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

5.6.3 AASB 116 allows for classes of assets to be depreciated over differing useful life timeframes, dependent on the estimated time an asset will offer future economic benefit before being replaced or decommissioned.

5.6.4 Where an individual asset is made up of multiple components with differing useful lives, each component with its individual useful life will be recognised to ensure accuracy of depreciation and asset valuation.

5.6.5 The useful life timeframes for asset classes specific to Council can be compared to Local Government Association peer-based research findings and considered appropriate for comparison to Councils preferred useful life timeframes.

5.6.6 In determining the useful life of an asset Council must consider the following;

(1) the asset’s expected capacity or physical output;

(2) expected maintenance required to maintain its anticipated state to perform the outputs of its intended use;

(3) technical or commercial obsolescence (if appropriate to Council operations) and;

(4) legal or statutory limitations to its use in the future.

5.7 Depreciation Method

5.7.1 Council will depreciate its depreciable assets under the straight-line method, unless another recognised method is deemed more appropriate.

5.7.2 In straight line depreciation the cost of the asset is apportioned equally over its life. Therefore the rate of depreciation will be expressed as a function of the assets useful life.

5.7.3 The Manager Financial Services is required to approve the method deemed more appropriate than the straight-line method, before actioning this in the fixed assets register.

5.7.4 The Manager Financial Services will also be responsible for disclosing the method for that particular asset in the financial statements completed for that period immediately after this decision has been undertaken, as required under AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.
5.8 **Intangible Assets**

5.8.1 Whilst it is unlikely Council will undertake operations that will see it required to recognise intangible assets, this Policy acknowledges the AASB 138 Intangible Assets Standard as the reference for guiding Council and its administration if it is required to recognise and measure an intangible asset.

5.8.2 For definitive purposes, AASB 138 defines an intangible asset as an identifiable non-monetary asset without physical substance. This broad interpretation can be applied to operational items assets such as:

1. scientific or technical knowledge,
2. design and implementation of new processes or systems,
3. licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles).

5.8.3 Whilst licenses and permits are offered by Council for the provision of certain services, it is highly likely that these licenses will not be considered intangible assets given that the vast majority of costs to generate them are internal administrative overheads.

5.8.4 According to AASB 138 any administrative costs incurred, forming part of the day-to-day running of the operations, that are attributable to the maintenance of what could be otherwise deemed an intangible asset are expenses in nature.

5.8.5 As such Council will not recognise any licenses or permits as intangible assets and therefore in turn will not capitalise administrative overheads for the purposes of recognising licenses and permits as intangible assets.

5.9 **Impairment of Assets**

5.9.1 In accordance with AASB 136 Impairment of Assets, Council will assess if an asset has been impaired at least annually.

5.9.2 Council will recognise an impairment event in its financial accounts whenever the recoverable amount of the asset is less than the carrying amount.

5.9.3 The recoverable amount of an asset is essentially the fair value of the asset, whilst the carrying amount of the assets (original recognition of the asset less accumulated depreciation and impairment losses).

5.9.4 Therefore if an asset’s net book value is less than its fair value, then an adjustment for the difference between those values will be expensed to the Statement of Comprehensive Income and accumulated against the value of the asset.

5.9.5 This may occur to assets where an abnormal event detrimentally affects the fair value of the asset from one financial period to another. For example if a storm event damages Council buildings and infrastructure.
6 **Review**

6.1 The Policy will be reviewed once per Council term or as required by legislation.

7 **Access to the Policy**

7.1 The Policy is available for public inspection on Council’s website www.prospect.sa.gov.au and from Customer Service at the Civic Centre, 128 Prospect Road, Prospect SA 5082.

8 **Further Information**

8.1 For further information about this policy please contact:
Director Corporate Services
City of Prospect
128 Prospect Road
Prospect SA 5082

Ph 8269 5355
Email admin@prospect.sa.gov.au