Fleurieu Regional Aquatic Centre Authority

Policy

ASSET ACCOUNTING POLICY

Date and Reference of FRAC Authority Resolution	28 July 2017 / FRACA000085
Review Frequency	Biennial Review
Review Date	
Next Review Due	July 2019
Policy/File Number	
Related Documents	Annual Budget Procurement Policy Disposal of Land & Assets Policy Financial Internal Controls Policy Treasury Management Policy Strategic Management Plans: • Strategic Plan (to be developed) • Long Term Financial Plan (to be developed) • Long Term Asset Management Plan (to be developed)
Applicable Legislation	Australian Accounting Standards & Regulations Local Government Act 1999 Local Government (Financial Management) Regulations 2011

OVERVIEW

The Fleurieu Regional Aquatic Centre Authority ('Authority') assets shall be recognised, capitalised and revalued in accordance with Accounting Standards and this Policy. The Authority will ensure that assets are managed and maintained efficiently and that decisions regarding the acquisition of new assets and the sale of existing assets are undertaken in an open, accountable and transparent fashion.

The Authority will develop a 10-year Asset Management Plan to assist in meeting its asset management objectives. The Authority's Long Term Financial Plan and Annual Business Plan and Budget will incorporate the needs identified in the Asset Management Plan.

PURPOSE

This policy provides guidance in complying with legislation which requires the Authority to account for and report on assets in its financial statements.

The guidance aims to provide information about assets allowing the Authority to gain a better understanding of the value and cost of using such assets to provide services; which enables better planning and decision-making regarding asset acquisition, management and disposal.

SCOPE

The accounting policies of the Authority must comply with requirements of the Australian Accounting Standards (including interpretations, as made by the Australian Accounting Standards Board AASB).

Asset accounting involves developing a detailed register of all assets and the setting of appropriate recognition thresholds. It involves decision-making on how to:

- categorise assets;
- determine asset life and depreciation amounts (which should reflect the levels of service provided by the asset) and when to value and revalue assets; and
- treat asset impairment, asset disposals and write offs;

DEFINITIONS

Asset	A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. For the purposes of this policy, assets include Infrastructure, Property, Plant and Equipment i.e. non-current assets and excludes current assets such as stock / inventory. This includes physical assets that meet a pre- determined threshold and that are used in the course of business over more than one accounting period. Examples are buildings, equipment, land, storm and waste water systems.
Asset Management	The combination of management, financial, economic, engineering and other practices applied to physical assets with the objective of providing the required level of service in the most cost-effective manner.
Capital Expansion	Expenditure which creates a new asset providing a new service/output that did not exist beforehand or expenditure that extends the capacity of an existing asset to a new group of users.
Capital Expenditure	Relatively large (material) expenditure, which has benefits expected to last more than 12 months. Capital expenditure includes renewal, expansion and upgrade. Where capital projects involve a combination of renewal, expansion and/or upgrade, the total project cost needs to be allocated accordingly.
Capital Renewal	Expenditure on an existing asset or on replacing an existing asset, which returns the service potential or the life of the asset up to that which it had originally.
Capital Upgrade	Expenditure which enhances an existing asset to provide a higher level of service or increases the life of the asset beyond which it had originally.
Carrying Amount	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
Depreciable Amount	The cost of an asset or other amount substituted for cost, less its residual value.
Fair Value	Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
Impairment	The decline in the future economic benefits or service potential of an asset, over and above the use reflected through depreciation.
Maintenance	All actions necessary for retaining an asset as near as practicable to its original condition, including regular ongoing day-to-day work necessary to keep assets operating.

Replacement Cost	The current cost to replace an item of property, plant and equipment on a like for like basis.
Residual Value	The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Useful Life	The period for which an asset is expected to be available for use by an entity.

POLICY PRINCIPLES

1. Recognition of an Asset

An asset is recognised in the balance sheet when it is probable that future economic benefits will flow to the entity and the asset has a cost that can be measured reliably.

An asset that qualifies for recognition as an asset will be recognised at cost as at the date of acquisition, including costs directly attributable to bringing the asset to the location and in the required condition for operation by the Authority. Where an asset is acquired at no or nominal cost, it will be recognised at its Fair Value as at the date of acquisition.

Assets should have a useful life of greater than one year to enable capitalisation of the expenditure and should also meet a materiality test. Materiality levels are set so as not to misstate Financial Statements and to provide a guide whether it is practical from an administrative perspective that expenditure is capitalised. No capitalisation threshold is applied to the acquisition of land or interests in land.

Materiality levels for capitalisation are set at:

- $1,000 for furniture, fittings and minor equipment; and
- $5,000 for plant, major equipment, buildings and infrastructure.

Expenditure can still be capitalised on items that fall below the materiality thresholds individually, but operate together as a cohesive whole to form a significant total value.

Software capitalisation involves the recognition of purchased or internally-developed software as an asset.

2. Measurement at Recognition

An item that qualifies for recognition as an asset shall be measured at its cost on the date of recognition. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition and all other costs incurred in getting the asset ready for use. 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. The following years after asset recognition the asset will be valued at Fair value according to the revaluation program as determined.

3. Depreciation of Non-Current Assets

All non-current assets have a limited useful life except for land and land improvements. The depreciable amount of all non-current assets, excluding freehold land and land improvements, are systematically depreciated over their useful lives which reflects the consumption of the service potential embodied in those assets.

Depreciation of an asset begins when it is available for use i.e. when it is in the condition necessary for it to be capable of operating in the manner intended; and ends when it is classified as held for sale or when derecognised.

Depreciation of assets is calculated on a straight-line basis using the following standard estimates for useful lives. The useful lives for building, infrastructure; furniture and fittings; and plant and equipment assets have been estimated based on industry standards and consultancy advice. The actual useful life and therefore depreciation rates may be varied for specific assets where asset quality and environmental and/or operational conditions so warrant.

Useful lives and residual values for each class of asset are reviewed annually and are included in the Asset Register which is updated following adoption of the annual financial statements each year.

Buildings and Other Structures:

Asset sub-category	Estimated Useful Life
Structure	40 years
Roofing	40 years
Fitout	8 to 30 years
Services	12 to 40 years
Non-componentised Buildings & Structure	15 to 40 years

Plant, Furniture and Equipment:

Asset sub-category	Estimated Useful Life
Plant & Equipment	5 to 40 years
Furniture and Fittings	10 to 35 years
Electrical Equipment	4 to 10 years
IT Equipment	3 to 10 years
Operational Equipment	5 to 25 years
Plant	12 to 35 years
Software	10 years

Infrastructure:

Asset sub-category	Estimated Useful Life
Stormwater	10 to 100 years
Footpaths	20 to 70 years
Kerbing	50 to 70 years
Sealed road surfaces / car parks	13 to 100 years
Water	15 to 80 years

4. Revaluation of Non-Current Assets

Non-current assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at reporting date in accordance with Australian Accounting Standards and Regulations under the Local Government Act 1999.

The following asset classes will remain at cost and will not be revalued:

- Plant, Furniture and Equipment
- Software

Determining the frequency of valuations depends on striking a balance between having relevant, timely information and the cost of obtaining such information. Therefore, it is appropriate to provide for periodic comprehensive revaluations with interim revaluations based on specific indices. Non-current assets that are subject to revaluation will be subject to a desktop review and potential application of a suitable price escalator after two years; with a more rigorous review of asset valuations (conducted on a 'fair value' accounting basis) occurring at an interval of no more than 5 years.

5. Residual Values of Non-Current Assets

The residual value of buildings, plant and furniture and fittings that are traded at the end of their useful life, can be calculated via AASB13 Fair Value Measurement. The residual value of the asset is what is expected to be obtained at trade in. The residual values of buildings, plant, equipment and furniture and fitting assets are based on market evidence and advice provided by independent valuations of these assets.

Residual values are not recognised for infrastructure assets.

6. Impairment

Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount in accordance with AASB 136.

External indicators for impairment may include significant adverse changes in the technological, market, economic or legal environment. Internal indicators may include obsolescence or physical damage of an asset.

Impairment shall be determined subject to the provisions AASB 1031 Materiality, whereby the total change in the written down value for the asset or the total impact on the depreciation shall be material. An impairment loss is recognised in the Income Statement, unless the asset is carried at a revalued amount, whereby it is to be treated in the same way as a revaluation decrement against the same asset. An impairment loss can be reversed in subsequent years.

7. Disposal or Sale of Assets

The disposal or sale of assets must be made in accordance with the Authority's Disposal of Land and Assets Policy.

8. Asset Management

The goal of asset management is to provide a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

To ensure long-term sustainability, the Authority has a responsibility for planning, developing and maintaining its assets for the benefit of the community.

When developing its Asset Management Plan, the following 4 (four) steps will be taken into consideration by the Authority:

1) Know what assets the Authority owns and the service standards target for those assets. Then estimate the cost to maintain the assets to meet the level of standard of service.

2) Consider any increased demand and costs for services from development growth or the impact of a declining population or other changes in population.

3) Prepare a life cycle management plan for all of council's assets. This will diminish the risk of unexpected expenditure when assets start failing.

4) Undertake risk and financial projections to determine which assets are most important to the community, its needs and safety.

9. Asset Register

The asset register for Infrastructure, Property and Plant will maintain details of Fair/Replacement/Historical Value, Accumulated Depreciation and Carrying Amount for each asset and asset class, along with historical information relating to revaluation and impairment.

Depreciation will be calculated and applied monthly and reconciled with the asset records where applicable at 30 June each year.

Asset additions and disposals will be recorded and reconciled at least quarterly.

Asset registers will be used to ensure that the Authority has adequate security arrangements and insurance cover to ensure fixed assets are protected from destruction, deterioration, theft; or fraudulent or illegal use. A register will also be kept for minor items which may be more likely to be subject to loss.

10. Asset investment appraisal process

Resources are limited and the Authority does consider, (in all asset investment decision making) the community need with available resources and a long-term outlook. All projects go through an Authority Board appraisal process including undertaking due diligence processes as appropriate.

Projects should only be approved once the impact on the long term financial plan has been determined and agreed by the Authority.

RESPONSIBILITIES

The Authority Executive Officer has overall responsibility for ensuring that the acquisition and capitalisation of all assets is conducted in accordance with legislation, Accounting Standard and Authority policies.

DELEGATIONS

The Authority Executive Officer has the authority to implement this policy.

AVAILABILITY OF POLICY

This Policy will be available on the Fleurieu Aquatic Centre Website.

REVIEW

This policy shall be reviewed by the Authority at a minimum within two (2) years of issued date.

Non-English translations of this policy can be made available if required.

Document History

VERSION	DOCUMENT	ACTION	DATE
1.0	Approved version	FRAC Authority endorsement	28 July 2017