Asset Recognition and Accounting Policy

Council Policy

Renmark Paringa Council

Responsible Officer	Director Corporate & Community Services
Relevant Legislation	Local Government Act and Australian Accounting Standards
Adopted	26 September 2023
Reviewed	April 2025
Next Review	June 2026

OBJECTIVE

To ensure Council's assets are recognised, capitalised and revalued in accordance with the Australian Accounting Standards and this Policy.

Background
Renmark Paringa Council are the custodians of over $119 million of infrastructure and assets on behalf of the community. Council has an obligation to ensure that current assets are managed efficiently and that decisions regarding the acquisition of new assets and the sale and maintenance of current assets are undertaken in an open and transparent fashion.

Sound asset management is integral to the financial sustainability of Council. The Local Government Act requires Council to develop and adopt infrastructure and asset management plans covering a period of at least 10 years. In addition,

Council is required to adopt long term financial management plan also covering a period of at least 10 years. Both of these will form part of Council's strategic management plans

Definitions
For the purposes of this policy the following definitions apply:

Asset – according to 49a of the "Framework for the Preparation and Presentation of Financial Statements" published by the Australian Accounting Standards Board (AASB),

"An asset is a resource controlled by the entity as a result of past events and from which

future economic benefits are expected to flow to the entity"

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 e.g.

resurfacing or re- sheeting a road, replacing drainage pipes with pipes of the same capacity.

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 eg widening the sealed area of an existing road, replacing drainage pipes with pipes of a greater capacity.

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, eg extending a drainage or road network.

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 eg road patching.

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.

Fair Value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

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.

Impairment – the amount by which the carrying amount on an asset or cash-generating unit exceeds its recoverable amount.

Recognition of an Asset

The criteria for recognising an asset is outlined in paragraph 89 of the "Framework for the Preparation and Presentation of Financial Statements":

"An asset is recognised in the balance sheet when it is probable that the future economic

benefits will flow to the entity and the asset has a cost or value that can be measured reliably."

The two essential components of recognition are:

- Probable future economic benefits – probable means that it is more likely than less likely that the benefits will be realised (i.e. >50%)
- Reliably measured – reliability means the faithful representation of the underlying transactions or events, without bias or error. Essentially, a third party would come to a similar value if presented with the information relating to the transactions or events.

Measurement at Recognition

An asset that qualifies for recognition as an asset shall be measured at its cost. 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. An item that qualifies for recognition as an asset shall be measured at its cost on the date of recognition unless it is a gifted asset in which case it will be recognised at Fair Value.

Capitalisation of Assets

Assets should have a useful life of greater than one year to enable us to capitalise the expenditure and it should 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.

Materiality levels for capitalisation are:

Asset Class	Materiality Level ($)
Land	1
Buildings	10,000
Land Improvements	5,000
Furniture and Fittings	5,000
Plant & Equipment	3,000
Transport	10,000
CWMS	10,000
Stormwater	10,000
Irrigation	10,000
Other	5,000

Measurement Post Recognition

The following years after asset recognition the asset will be valued at Fair value according to the revaluation program of the Renmark Paringa Council

AASB 13 is effective for accounting periods beginning 1 July 2013. The principles of AASB 13 are intended to increase the consistency and comparability of fair value estimates in financial reporting.

AASB 13 requires the use of a Fair Value hierarchy where assets are reported as level 1, level 2 or level 3 Inputs. This refers to how the value of the asset has been determined. The following table outlines the Fair Value Hierarchy Disclosure Classification by asset class for Renmark Paringa Council.

Hierarchy	**Description**
Level 1 Inputs	**Quoted Prices – active markets**
Financial Assets	A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (eg on different exchanges).
Level 2 Inputs	**Observable Inputs**
Land Council Buildings on Non Community Land and are able to be used commercially (eg. Senior Citizens, Meals on Wheels, Chaffey Community Centre, Plant, Furniture & Equipment	Level 2 inputs include the following: a) Quoted prices for similar assets or liabilities in active markets. b) Quoted prices for identical or similar assets or liabilities in markets that are not active. c) Inputs other than quoted prices that is observable for the asset or liability.
Level 3 Inputs	**Unobservable Inputs**
Buildings on Community Land, Community Land, All Infrastructure Assets, Software Assets	An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs such as the entity's own forecasts. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data and shall adjust that data if reasonably available information indicates that other market participants would use different data

Depreciation of Non-Current Assets

All non-current assets except land have a limited useful life. The depreciable amount of these assets is systematically depreciated over their useful life which reflects the consumption of the service potential embodied in those assets.

Depreciation, for all non–current assets, is calculated on a straight-line basis using the following standard estimates for useful lives although the actual useful life and therefore depreciation rates may be varied from this for specific assets where asset quality and environmental and/or operational conditions so warrant.

	Asset Sub-Class	Useful Life	Valuation Type
Land	-		Fair Value
Buildings	-	50 years	Replacement Cost
Land Improvements	-	33 years	Replacement Cost
Furniture and Fittings	-	10 years	Cost
Plant & Equipment	Computer Equipment	3 years	Cost
	Office Electrical Equipment	5 years	Cost
	Minor Equipment	10 years	Cost
	Major Plant	10 years	Cost
	Mowers	3 years	Cost
	Passenger Vehicles	3-5 years	Cost
Transport	Bridges	100 years	Replacement Cost
	Footpaths	15-50 years	Replacement Cost
	Kerbing	70 years	Replacement Cost
	Natural Formed Roads	unlimited	Replacement Cost
	Unsealed Roads	15-40 years	Replacement Cost
	Spray Seal Surface	20-28 years	Replacement Cost
	Hot mix Seal Surface	22-30 Years	Replacement Cost
	Slurry Seal Surface	18-22 years	Replacement Cost
	Segmental Paver Surface	20 years	Replacement Cost
	Road Pavement	50-90 years	Replacement Cost
CWMS	CWMS Treatment Plant	50 years	Replacement Cost
	CWMS Pipelines	50 years	Replacement Cost
	CWMS Plant & Equipment	10 years	Replacement Cost
Stormwater		100 years	Replacement Cost
Irrigation		30-50 years	Replacement Cost

Revaluation of Non-current Assets

Asset classes are to be revalued on a regular basis to ensure that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be 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. To maintain the value of assets in current terms, comprehensive revaluations of noncurrent physical assets will be carried out at least every five years. When an external revaluation

has not been undertaken in the current year, staff will review and apply indexation to ensure that the change in asset values reflects the estimated fair value. This revaluation increment will be based on relevant indices to reflect the increase in capital value.

Revaluation increments arising upon revaluation are credited directly to the asset revaluation reserve.

Non-current physical assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to depreciated replacement cost.

Impairment

Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

For assets whose future economic benefits are not dependent on the ability to generate cash flows, and where the future economic benefits would be replaced if Council were deprived thereof, the value in use is the depreciated replacement cost.

Version #	Approval Date	Approved by	Amendment
1.0	7 September 2023	Audit & Risk Committee	New policy reviewed and adopted
1.1	26 September 2023	Council – ARC2023-15	n/a
2.0			