



3.07 – ASSET ACCOUNTING POLICY

1. INTRODUCTION

The asset accounting policy dictates the required accounting treatment of non-current assets that provide future economic benefits to Norfolk Island Regional Council and the community.

2. POLICY OBJECTIVE

To ensure that there is a standardised approach used by Norfolk Island Regional Council when accounting for non-current assets. Also, to ensure that the accounting treatment for such assets are in compliance with International and Australian Accounting Standards and relevant legislation.

3. POLICY SCOPE

This policy applies to all of Norfolk Island Regional Council's non-current assets in relation to their treatment for financial purposes. This policy does not apply to receivables, inventory or investments.

4. POLICY STATEMENT

Definition of an Asset

An asset is a physical resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity for more than 12 months and over which Council has control. An asset is recognised in the Statement of Financial Position (Balance Sheet).

Any item which has a useful life of less than 12 months is recognised in the income statement and is classed as an expense under the operational or maintenance budget. It cannot be classed as an asset.

Recognition of Assets and Measurement at Recognition

Australian accounting standard AASB 116 paragraph 7 states that the cost of an item property, plant and equipment be recognised as an asset if and only if:

- *it is probable the future economic benefits associated with the item will flow to the entity: and*
- *the cost of the item can be measured reliably*

Paragraph 15 of AASB 116 requires an item of property, plant and equipment that qualifies for recognition as an asset to be measured initially at cost. Notwithstanding paragraph 15, where an asset is acquired at no cost, or for a nominal cost (as the case with developer and other contributed assets), the cost is its fair value as at the date of acquisition.

According to paragraph 16 of AASB, the cost of an item of property, plant and equipment is to comprise:

- *its 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;*

According to paragraph 17 of AASB 116 'directly attributable costs' include:

- *costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment;*
- *costs of site preparation;*
- *initial delivery and handling costs;*
- *installation and assembly costs;*
- *professional fees;*
- *costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition*
- *the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period*

Purchase costs that are excluded from the cost of an asset as outlines in Paragraph 19 of AASB 116 include:

- *costs of opening a new facility*
- *costs of introducing a new product or service (including costs of advertising and promotional activities)*
- *costs of conducting business in a new location or with a new class of customer*
- *administration and other general overhead costs*

These accumulated costs represent the value of the asset at cost as at the date in which the asset is deemed to be complete and available for use. Not-for-profit entities may acquire assets at zero or at a nominal value, the asset is deemed to be valued at its fair value at date of acquisition. This initial valuation does not constitute a revaluation; a revaluation will only occur when it is the expressed decision of management to revalue a class of assets to ensure their carrying value is materially close to fair value.

Derecognition of Assets

Australian Accounting Standard AASB 116 paragraph 67 states that the carrying amount of an item shall be de-recognised:

- a) *on disposal or;*
- b) *when no future benefits are expected to arise out of its use or disposal.*

AASB 116, paragraph 68, provides that:

- *The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless AASB 117 requires otherwise on a sale and leaseback).*

Rules for Recognition of project cost elements:

Activity	Recurrent Expenditure	Capital Expenditure
Activities prior to decision made to proceed with investment include: <ul style="list-style-type: none"> • General strategic planning reports • Project scoping and investigation, valuation reports 	x	
Activities directly associated with investment include: <ul style="list-style-type: none"> • Survey and design • Professional fees • Site preparation • Construction • Contract payments • Council direct costs, wages, salaries, plant hire, materials, on-costs • Supervision • Transport, installation, assembly and testing • Project management • Future dismantling and removing item and site restoration (where applicable) 		x

Asset Revaluation

As all assets are to be recorded at their 'Replacement Cost' (Fair Value), Norfolk Island Regional Council is required to revalue all assets on a regular basis, not being more than 5 year intervals, to assess the assets carrying value against the assets fair value at reporting date.

Materiality

Information is material if its omission, misstatement or nondisclosure has the potential, individually or collectively, to influence the economic decisions made by users on the basis of the financial statements.

In the context of materiality, it is not necessary to recognise every non-current asset in the balance sheet. For example, a calculator may have a useful life greater than 12 months but its value is small and does not warrant the cost of recording in the asset register, so it is simpler to expense it.

Minor Assets

Minor assets are those items acquired for a cost less than the capital threshold for that applicable category. The acquisition of minor assets is treated as an expense.

Useful Lives

The useful life of an asset is defined as the period of time over which an asset is expected to be available for use by the Council. Over this period the useful life will be reviewed on a regular basis, at 30th June each year as a minimum, taking into account new information about future economic value, any adjustments resulting from this review will be made prospectively as changes in accounting estimates.

Componentisation

Several assets need to be componentised to allow for condition assessment and determination of depreciation expense. Each component should:

- Be significant in cost
- Have a different useful life or depreciation pattern
- Separately identify short-life and long-life parts consistent with the AASB decision of May 2015

Norfolk Island Regional Council componentises its assets as per OLG guidance for infrastructure property, plant and equipment.

Work in Progress

Work in progress balances are review quarterly to ensure completed projects are brought to account as assets within a timely manner and any operational costs are expensed accordingly.

Depreciation & Impairment

The depreciation method used by Norfolk Island Regional Council for all depreciating assets is the Straight-Line Depreciation approach where the consumption of benefits is in a uniform manner over the useful life of an asset, calculated on asset cost less residual value.

When impairment for an asset is found (the carrying amount is greater than the recoverable amount), the asset is then deemed to have been consumed at a faster rate than original estimates, resulting in the expected useful life being shorter. This change in expected useful life may be as a result of an event such as a flood, or a higher than expected natural rate of deterioration. This may result in expense.

AASB paragraph 60 states:

- *An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other standard.*

If an asset that is part of a class held 'at valuation' has been revalued, the impairment loss will be recognised by reducing the balance of the revaluation surplus as it pertains to a previous revaluation. Otherwise the impairment loss is recognised by recognising an expense directly.

Capital Expenditure Thresholds

The capital expenditure threshold is the new, upgrade or renewal value of an asset, below which the project cost, is normally expensed and above which it is normally capitalised. Norfolk Island Regional Council's capital thresholds for assets are outlined as follows. To aid clarity, examples of expenditures that will be considered operating or maintenance/repair are also provided.

Asset Groups

- a) Land
- b) Plant and Equipment
- c) Buildings and Other Structures
- d) Transport Infrastructure
- e) Strom Water Network
- f) Furniture & Fittings and Office Equipment
- g) Other Assets

a) Land

Land assets are recognised as the following:

- Community land
- Operational land
- Easements
- Land under Roads (acquired after 1/7/2008)
- Crown Land with Council as the custodian

All land assets are capitalised on acquisition.

b) Plant and Equipment

TYPE	USEFUL LIFE
• Earthmoving and other major plant– Trucks, loaders, graders, tractors, machinery, trailers, forklifts etc	5-20 yrs
• Light Vehicles – Passenger vehicles, motorbikes etc	5-10 yrs
• Minor Plant - Pumps, computers and electronic devices, other minor plant (generators, chainsaws, whipper-snippers etc.)	2-20 yrs

Work Activity – Plant and Equipment

Operating Expenditure		Capital Expenditure		
Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> • Fuel, consumables, Registration • Supervision • Service delivery management 	<ul style="list-style-type: none"> • Reactive maintenance • Programmed servicing • Replacement of major components (engine, gearbox) • Upgrade asset (adding air-conditioning) • Purchase and replacement of items • < \$10,000 	<ul style="list-style-type: none"> • Replacement of plant and equipment asset with the same standard • > \$10,000 	<ul style="list-style-type: none"> • Upgrade/ replacement of existing plant and equipment to a higher standard • > \$10,000 	<ul style="list-style-type: none"> • New assets • > \$10,000

c) Buildings and Other Structures

TYPE	USEFUL LIFE
• Buildings	
○ Structure	50-150 yrs
○ Roof	20-60 yrs
○ Mechanical Services	20-40 yrs
○ Floor Coverings	20-40 yrs
○ Fire Services	20 -40 yrs
○ Transportation Services	20-40 yrs
• Other Structures	10-100 yrs
– Fencing, picnic shelters, gazeboes, bus shelters etc.	

Work Activity – Buildings and Other Structures

Operating Expenditure		Capital Expenditure		
Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> • Service delivery and property management • Safety inspections • Security • Cleaning 	<ul style="list-style-type: none"> • Reactive maintenance and repair • Programmed servicing • Component replacement (carpet) • < \$20,000 	<ul style="list-style-type: none"> • Replacement of whole building asset with same standard • Component renewal/replace (rewiring, fit-out etc.) • > \$20,000 	<ul style="list-style-type: none"> • Structure extensions • Structure enhancements at a higher level of service • > \$20,000 	<ul style="list-style-type: none"> • New assets • > \$20,000

d) Transport Infrastructure -

Transportation Infrastructure assets are recognised as the following:

TYPE	USEFUL LIFE
• Sealed Roads	
○ Formation	Indefinite
○ Pavement	40-80 yrs
○ Seal	15-25 yrs
• Unsealed Roads	
○ Formation	Indefinite
○ Pavement	40-80 yrs
• Carpark	
○ Sealed Surfaces	15-25 yrs
○ Sealed Pavement	40-80 yrs
○ Unsealed Pavement	7-10 yrs
• Kerb and Gutter	40-80 yrs
• Footpaths	
○ Paved surfaces	20-50 yrs
○ Unpaved Surfaces	7-10 yrs

- | TYPE | USEFUL LIFE |
|---|--|
| <ul style="list-style-type: none"> • Airport Runway <ul style="list-style-type: none"> ○ Formation ○ Pavement ○ Seal | <ul style="list-style-type: none"> Indefinite 40-80 yrs 15-25 yrs |

Work Activity – Sealed Roads

Operating Expenditure		Capital Expenditure		
Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> • Supervision • Service delivery management • Line markings • Road hazard/ defect inspections • Condition inspections 	<ul style="list-style-type: none"> • Reactive maintenance to sealed roads • Programmed servicing • Sealed pavement partial renewal/ rehabilitation • < \$20,000 	<ul style="list-style-type: none"> • Pavement replacement/ renewal of asset with the same standard • Resurfacing with the same standard • > \$20,000 	<ul style="list-style-type: none"> • Pavement replacement/ renewal of asset at a higher standard • Resurfacing at a higher standard • Road Widening • > \$20,000 	<ul style="list-style-type: none"> • New assets • > \$20,000

Work Activity – Unsealed Roads

Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> • Supervision • Service delivery management • Road hazard/ defect inspections • Condition inspections 	<ul style="list-style-type: none"> • Reactive maintenance to unsealed roads • Programmed servicing • Grading • < \$20,000 	<ul style="list-style-type: none"> • > \$20,000 	<ul style="list-style-type: none"> • Widening of pavement • > \$20,000 	<ul style="list-style-type: none"> • New assets • > \$20,000

Work Activity – Carparks

Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> • Supervision • Service delivery management • Pavement markings 	<ul style="list-style-type: none"> • Reactive maintenance to carparks • Programmed servicing • Sealed pavement renewal/ rehabilitation • Unsealed surface resurfacing • < \$20,000 	<ul style="list-style-type: none"> • Pavement replacement/ renewal with the same standard • Resurfacing with the same standard • > \$20,000 	<ul style="list-style-type: none"> • Pavement replacement/ renewal at a higher standard • Resurfacing at a higher standard • > \$20,000 	<ul style="list-style-type: none"> • New assets • > \$20,000

Work Activity – Kerb and Gutter

Operating Expenditure		Capital Expenditure		
Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> Supervision Service delivery management Clearing drains and pits Sweeping 	<ul style="list-style-type: none"> Reactive maintenance to kerbs and gutters Programmed servicing < \$20,000 	<ul style="list-style-type: none"> Replacement of whole asset length of kerb and gutter at same standard > \$20,000 	<ul style="list-style-type: none"> Replacement of whole asset length of kerb and gutter at a higher standard > \$20,000 	<ul style="list-style-type: none"> New assets > \$20,000

Work Activity – Footpaths

Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> Supervision Service delivery management Landscaping maintenance Footpath Cleaning Hazard inspections 	<ul style="list-style-type: none"> Reactive maintenance to footpaths Programmed servicing < \$20,000 	<ul style="list-style-type: none"> Resurfacing with the same standard Replacement of whole asset length of paved footpath at same standard > \$20,000 	<ul style="list-style-type: none"> Resurfacing to a higher standard Replacement of whole asset length of paved footpath to a higher standard > \$20,000 	<ul style="list-style-type: none"> New assets > \$20,000

Work Activity – Airway Runway

Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> Supervision Service delivery management Hazard/ defect inspections Condition inspections 	<ul style="list-style-type: none"> Reactive maintenance to airway runway Programmed servicing < \$20,000 	<ul style="list-style-type: none"> Pavement replacement/ renewal of asset with the same standard Resurfacing with the same standard > \$20,000 	<ul style="list-style-type: none"> Pavement replacement/ renewal of asset at a higher standard Resurfacing at a higher standard Road Widening > \$20,000 	<ul style="list-style-type: none"> New assets > \$20,000

e) Stormwater Drainage

TYPE	USEFUL LIFE
Pipes	80-100 yrs
Pits / Access Point	30 yrs
Drainage Structure	50 yrs
Lined / Unlined Open Drain	80 yrs
Dams/ Retention Basins	80-120 yrs
Pumps/ Bores	20-40 yrs
Facilities and Other Structures	10 yrs

Work Activity – All Stormwater Drainage

Operating Expenditure		Capital Expenditure		
Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> Service delivery management / supervision Clearing drains and pits Street sweeping Condition assessment Defect inspection 	<ul style="list-style-type: none"> Reactive maintenance Programmed maintenance Replacement of drainage assets < \$20,000 	<ul style="list-style-type: none"> Replacement/ renewal of drainage assets with the same standard > \$20,000 	<ul style="list-style-type: none"> Replacement/ renewal of drainage assets at a higher standard > \$20,000 	<ul style="list-style-type: none"> New assets > \$20,000

f) Furniture & Fittings and Office Equipment

TYPE	USEFUL LIFE
Office Furniture and Equipment	3-20 yrs
Fittings	3-40 yrs

Work Activity – Furniture & Fittings and Office Equipment

Operating Expenditure		Capital Expenditure		
Operations	Maintenance / Repairs	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> Cleaning Storage Transport Valuations 	<ul style="list-style-type: none"> Reactive maintenance and repair Programmed servicing Partial replacement Replacement to the same standard < \$10,000 	<ul style="list-style-type: none"> Replacement of furniture & fittings and office equipment to the same standard > \$10,000 	<ul style="list-style-type: none"> Upgrade of existing items to a higher standard Replacement to a higher standard > \$10,000 	<ul style="list-style-type: none"> New assets > \$10,000

g) Other Assets

Other assets are recognised at the following levels:

- Library Books - are recognised as having immaterial costs and will not be capitalised.
- Visual and Audio assets - are recognised as having immaterial costs and will not be capitalised.
- Artworks – are all capitalised
- Statues - are all capitalised
- Sculptures - are all capitalised
- Monuments - are all capitalised
- Other Assets

Assets that are recognised as “Other Assets” include those that cannot be clearly put into any other asset group due to their unique nature.

Work Activity – Other Assets				
Operating Expenditure		Capital Expenditure		
Operations	Maintenance and Repair	Capital Renewal	Capital Upgrade	Capital New
<ul style="list-style-type: none"> • Cleaning • Storage • Transport 	<ul style="list-style-type: none"> • Reactive maintenance and repair • Programmed servicing • < \$10,000 	<ul style="list-style-type: none"> • Replacement of asset with the same standard • > \$10,000 	<ul style="list-style-type: none"> • Replacement of asset at a higher standard • > \$10,000 	<ul style="list-style-type: none"> • New assets • > \$10,000

5. IMPLEMENTATION

5.1 ROLES & RESPONSIBILITIES

The following Council officers are responsible for the implementation and the adherence to this policy:

- General Manager
- Group Manager Corporate/ CFO
- Group Manager Services
- Executive Manager - Organisational Development
- Manager - Customer Care
- Manager - Infrastructure and Services
- Manager - Commercial Services
- Manager - Planning & Environmental Services
- Financial/Management Accountant

5.2 COMMUNICATION

Following adoption by Council this Policy will be made available on Council’s website for the public.

6. REVIEW

Review of this policy will incorporate relevant legislation, documentation released from relevant state agencies and best practice guidelines.

~~The standard review period will be every three (3) years from the effective date. The responsible Council Policy Statement No. 3.07~~

Date of Effect: 21 August 2019

Name of Policy: Asset Accounting Policy

Review Date: 2023

Responsible Officer: Group Manager Corporate / CFO

officer will be notified of the review requirements three (3) months prior to the expiry of this policy. The Group Manager Corporate / Chief Financial Officer is responsible for the review of this policy.

7. LEGISLATIVE AND LEGAL FRAMEWORK

This policy is to be read in conjunction with the following:

- *Local Government Act 1993 (NSW) (NI)*
- *Local Government Code of Accounting Practice and Financial Reporting (update No.27)*

Australian Accounting Standards Board (AASB) Standards:

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations
- AASB 13 Fair Value Measurement
- AASB 101 Presentation of Financial Statements
- AASB 108 Accounting Policies, Change in Accounting Estimates
- AASB 116 Property, Plant and Equipment;
- AASB 117 Leases
- AASB 123 Borrowing Costs
- AASB 136 Impairment of Assets
- AASB 138 Intangible Assets
- AASB 140 Investment Property
- AASB 1031 Materiality
- AASB 1049 Whole of Government and General Government Sector Financial Reporting
- AASB 1051 Land Under Roads;

Council employees shall refrain from personal activities that would conflict with proper execution and management of Council's Asset Accounting Policy. Council's Code of Conduct provides guidance for recognising and disclosing any conflicts of interest.

8. DEFINITIONS

Assets: are physical resources controlled by the entity as a result of past events and from which future economic benefits will derive

Assets - Current: are assets that are expected to be consumed, realised, sold or otherwise disposed of within one financial year

Assets - Non-Current: are assets that are not expected to be full consumed, realised, sold or otherwise disposed of within on financial year

Capitalisation Threshold: when the value of a new, upgraded or renewed asset reaches a determined cost it is capitalised, below this cost and the value is expensed.

Capital Expenditure: expenditure on assets that are above the capitalisation threshold. A relatively large (material) expenditure, which has benefits (service potential), expected to last for more than 12 months. Capital expenditure includes new assets, renewal/replacement and expansion/upgrade of existing assets.

- Capital renewal/replacement is expenditure on an existing asset, which restores the service potential and extends the life of the asset beyond that which it had originally. As it extends the life of the asset

any income generated from it will likewise be extended. Future operating and maintenance expenditure may be reduced if completed at the optimum time, e.g. resurfacing or re-sheeting part of a road network, replacing a section of a drainage network with pipes of the same capacity, resurfacing an oval.

- Capital upgrade/expansion is expenditure, which enhances an existing asset to provide a higher level of service. Upgrade expenditure is discretionary and may not result in additional revenue unless direct user charges apply. It will increase operating and maintenance expenditure, including depreciation, in the future because of the increase in the council's asset base, e.g. widening the sealed area of an existing road, replacing drainage pipes with pipes of a greater capacity, enlarging a grandstand at a sporting facility, building extension etc.

Componentisation: the segmentation of complex assets into identifiable components that have varying useful lives

Land under Roads: is land under roadways and road reserves, including the land under the road itself, footpaths, nature strips and median strips. It does not include land under unused roads as not required for public traffic or under 'paper roads' which do not meet the Common Law definition of a public highway

Maintenance expenditure: is a component of operating expenditure, specifically on an asset, which is periodically required as part of the anticipated schedule of works needed to ensure that the asset achieves its estimated useful life, and is normally relatively low cost compared to the asset value. Maintenance expenditure includes reactive maintenance and repair, or planned maintenance

Materiality: Information is material if its omission, misstatement or nondisclosure has the potential, individually or collectively, to influence the economic decisions made by users on the basis of the financial statements

Minor Assets: are those items acquired for a cost less than the capital threshold for that applicable category.

Operating Expenditure: is recurrent expenditure such as power, fuel, telephone, employee costs, materials, cleaning, minor equipment, overheads, maintenance and depreciation. These costs are the day to day expenses associated with providing the service during a year of operations.

Recognition: the decision to include an asset as capitalised expenditure

Recurrent Expenditure: relatively small expenditure which has benefits that will be expected to last less than 12 months; including operating and maintenance expenditure

Useful life: the time period in which an asset is expected to be available for use

9. REVIEW AND VERSION CONTROL

Policy Number	3.07		Responsible Officer	Group Manager Corporate/CFO
Effective Date	21 August 2019		Next Review Date	2023
Version Number	Version	Resolution No.	Effective Date	Version description
	V1	2017/58	19 April 2017	Created and adopted
	V2	2017/153	20 September 2017	Main change to increase the asset thresholds for the identification of new non-current assets be increased to between \$10,000 and \$20,000
	V3	2019/157	21 August 2019	Include 'Work-In-Progress' reviewed quarterly, updated responsible officers in roles & responsibilities.