COUNCIL POLICY

Fixed Assets: Valuation and Revaluation	**Adopted By Council:**	27/07/17	
	Date/s Revised: 26/03/2020; 24/05/23, 22/05/2024		
	Next Review Date:	05/2027	
	Document No:	CP036	
	Directorate:	Finance and ICT Services	
	Responsible Officer:	Manager Finance and ICT Services	

CONTEXT

Council is committed to enabling those charged with governance (including Council's Audit and Risk Committee) to be involved in the review and approval of the methodologies applied to valuation of non-current physical assets for financial reporting purposes, as required, before the financial statements are prepared each financial year.

PURPOSE

The purpose of this policy is to specify the Borough of Queenscliffe's approach, in accordance with relevant Australian Accounting Standards, other legislative requirements and State Government guidelines, to undertake financial valuations and subsequent revaluations of non-current physical assets of Council.

DEFINITIONS

For the purposes of this policy, the following definitions will apply:

Fixed asset An item or physical component of a non-current physical asset recorded in Council's asset register, which has future economic benefits and enables services to be provided. Only those fixed assets owned and/or controlled by Council shall be recognised as fixed assets for the purpose of this policy.

Asset class A group of fixed assets having a similar nature or function in the operations of Council, and which, for the purposes of financial reporting, are disclosed as a single item. A road asset class, for example, might include asset categories such as kerb, sealed pavement, unsealed pavement, sealed surface, sealed road formation and unsealed road formation.

DRC Depreciated Replacement Cost (DRC) is the current replacement cost of the asset, less accumulated depreciation calculated on the basis of such a cost to reflect the already consumed or expired future economic benefits of the fixed asset.

Fair Value The price that would be received to sell a fixed asset (or paid to transfer a liability) in an orderly transaction between market participants at measurement date. Fixed assets measured at fair value are categorised within a hierarchy of three levels, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- **Level 2** Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- **Level 3** Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Historical cost The amount paid at fair value of consideration given to acquire or construct a fixed asset at the time of its original acquisition or construction. Where a fixed asset is acquired at no cost, or for a nominal cost (such as developer or other contributed assets), the historical cost is its fair value as at the date of acquisition.

Impairment At each reporting date, Council reviews the carrying value of its fixed assets to determine whether there is any indication that these assets have been impaired. If such an indication exists, the recoverable amount of the fixed asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the Comprehensive Income Statement, unless the asset is carried at the revalued amount, in which case, the impairment loss is recognised directly against the revaluation surplus in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset.

Revaluation Subsequent to the initial recognition of fixed assets, certain non-current physical assets are measured at their fair value. At balance date, Council reviews the carrying value of the individual asset classes of fixed assets measured at fair value to ensure that each fixed asset materially approximates its fair value. Where the carrying value materially differs from the fair value at balance date, the asset class is revalued.

POLICY

This policy covers financial valuation on initial recognition and subsequent revaluation of fixed assets. Fixed assets include property, plant and equipment and infrastructure. This policy addresses the:

1. Initial recognition and depreciation;
2. Frequency and method of valuation and revaluation;
3. Broad responsibilities for fixed assets valuation and revaluation; and
4. Audit and review procedures.

This policy excludes insurance valuations for fixed assets.

1. Initial Recognition and Depreciation

An asset is recorded in the balance sheet when it is likely that future economic benefits will flow to the entity, and the asset has a cost or value that can be reliably measured.

Assets are measured and recognized according to AASB 116 – Property, Plant, and Equipment:

a. An item of property, plant, and equipment that qualifies for recognition as an asset is measured at its cost;
b. However, if an asset is acquired at no cost or for a nominal cost (as is the case with developer and other granted assets), its cost is determined as its fair value on the acquisition date.

Not-for-profit entities should consider AASB 1058 Income of Not-For-Profit Entities when assessing the value of an asset that is significantly less than fair value.

The cost of an asset includes:

- its purchase price (whether bought or constructed), 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 (asset for use); and
- the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which an entity incurs either when the asset is acquired or as a consequence of having used the asset during a particular period.

Examples of costs incurred to prepare the asset for use (not limited to):

- Planning approvals;
- Survey and design.;
- Professional fees;
- Site preparation costs;
- Construction and other contract payments (excluding compensation payments.);
- Council's direct costs such as wages, salaries, plant hire, materials;
- Cost associated with transport, installation, assembly and testing; and
- Project management cost.

The following costs should not be included in the asset's cost base, as they are not directly related to bringing the asset into use, even though they might have been considered as part of the overall project;

- Costs incurred before the decision to proceed with the investment, such as development of strategic planning reports, project feasibility studies, etc.
- Costs related to renting temporary locations during the project;
- Cost associated with temporary measures such as temporary fencing, site access control, security etc.
- Expenses related to landscaping that do not directly contribute to the asset's operational use.

Work in Progress (WIP)

The total project cost for each capital work project is accurately recorded in the Council's finance system. When it comes to capital works that are still in progress as of the balance sheet date, they are recognised as other non-current assets (under WIP). The expense associated with acquiring assets will initially be recorded in the appropriate Work in Progress (WIP) account as well. Once these assets are ready for use, they are transferred to the relevant infrastructure, property, plant, and equipment category.

Upon project completion, the costs directly associated with preparing the asset for use are recognised as the asset's initial cost. However, any remaining costs that are not directly related to bringing the asset into use are classified as operational costs (expenditure that does not meet capitalization criteria or threshold).

Materiality

Assets are recognised on the balance sheet when the value (cost base to bring the asset to use) is greater than the thresholds below:

Asset Class	**Threshold Limit**
	$
Land & land improvements	
Land	All assets
Land under roads	All assets

Asset Class	Threshold Limit
Land improvements	10,000
Buildings	
Buildings	10,000
Plant and Equipment	
Plant, machinery and equipment	2,000
Fixtures, fittings and furniture	2,000
Computers and telecommunications	2,000
Infrastructure	
Roads	10,000
Footpaths and cycleways	10,000
Drainage	10,000
Recreation, leisure and community facilities	5,000
Waste management	5,000
Parks, open space and streetscapes	5,000
Off-street car parks	10,000
Other infrastructure	5,000

Low Value and High Risk of Theft – Portable Assets
While certain assets may not be formally recognised on the balance sheet, the Council maintains separate registers for low-value, portable assets that are at high risk of theft. These assets are recorded at zero value in the register and are expensed in the year of their purchase.

Asset Depreciation
According to AASB 116, depreciation refers to the systematic allocation of the depreciable amount of an asset over its useful life. The Council employs straight-line depreciation for all its non-current assets. This decision is based on the understanding that the economic benefits provided by the asset are generally utilized uniformly throughout its useful life. Local Government Victoria's recommendation paper (Local Government Victoria – Local Government: Accounting for non-current physical assets under AASB 116 – A guide, May 2006).

It's important to note that the straight-line depreciation method differs from condition-based depreciation. Condition-based depreciation does not directly reflect the consumption pattern of future economic benefits; instead, it measures the degradation curve of the underlying asset that provides those benefits. Council considers condition-based details when determining asset renewal requirements.

Depreciation of an asset will begin from the time the asset is available and ready for use. This includes the asset being in its intended location and in a condition to enable the assets to be used in the manner they were intended. The average depreciation period (useful life) for each class of asset is summarised in the below table.

Asset Class	Depreciation Period
	Years
Land & land improvements	
Land	Not depreciated
Land under roads	Not depreciated
Land improvements	Not depreciated
Buildings	
Buildings	25 – 200
Plant and Equipment	

Asset Class	Depreciation Period
Plant, machinery and equipment	2 – 10
Fixtures, fittings and furniture	3 – 10
Computers and telecommunications	3 – 10
Infrastructure	
Roads	12 – 80
Footpaths and cycleways	20 – 50
Drainage	15 – 100
Recreation, leisure and community facilities	10 – 100
Waste management	5 – 15
Parks, open space and streetscapes	5 – 25
Off-street car parks	12 – 80
Other infrastructure	5 – 100

2. Frequency and Method of Valuation and Revaluation

Australian Accounting Standards, outline the legislative requirements that require Council to apply fair value to the valuation and revaluation of fixed assets, and specified guidelines relating to the frequency of revaluation.

AASB116 Property, Plant and Equipment requires that revaluations be undertaken regularly and mandates that an annual assessment be undertaken. If there are indicators of material differences, the entire class of asset must be revalued. As a result, any prescribed requirements setting out defined revaluation schedules should be seen only as a minimal guide. Revaluations shall be made 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.

For fixed assets, indexed historical cost will generally not provide a reliable measurement of fair value. Relatively short-lived or low value assets, including plant and equipment, office furniture and fleet vehicles will continue to be carried at historical cost, as this is expected to provide a reasonable approximation of fair value for these short-lived assets.

All other asset classes will typically be recognised at fair value. The fair value basis of recognition ensures that the consumption of fixed assets (ie. depreciation expense) approximates the expected long term average costs to renew or replace those assets. The depreciation expense is accounted for via Council's Balance Sheet and the Comprehensive Income Statement.

The guiding principle for revaluation frequency is that that the carrying amount at the end of the reporting period of an asset class does not differ materially from the fair value of that class of assets at that same date. This means that Councils must assess:

- whether the depreciable amount has moved materially, which is determined by movements in replacement cost and residual value of assets; and
- whether the accumulated depreciation has moved materially, which is determined by changes in total and remaining useful life of assets.

Appendix A identifies the planned frequency at which Council will undertake comprehensive revaluations and associated condition assessments for the various asset classes in order to maintain the value of assets in current terms.

The planned frequency identified in Appendix A is mainly based on the factors such as the frequency of condition assessment of the relevant class of asset, past changes in the fair value and the impact on the depreciation (capital renewal requirements).

Exceptions to this frequency of revaluation will only be made when a material change is demonstrated on a cumulative basis between revaluation cycles.

Council utilises a materiality threshold of 10% or $100,000 whichever is the greater. Therefore, if deemed material, indexation or impairment of asset classes will be conducted.

In implementing this policy, Council will:

- Review financial valuation of Council owned or controlled fixed asset classes, as at 30 June each year, including assessment of impairment, and maintain supporting documentation for audit purposes;
- In accordance with **Appendix A** – Condition and Valuation Table, which accompanies this policy:
  - Conduct fixed asset revaluations;
  - Adopt fixed asset useful lives;
  - Apply the adopted valuation method and frequency for each asset class;
  - Ensure that condition assessments are conducted for each asset class; and
- Ensure that corporate systems record current asset values for reporting in audited financial statements within the Annual Report.

3. Broad Responsibilities for Fixed Asset Valuation and Revaluation

The following key responsibilities apply to undertaking valuation and revaluation of certain fixed assets:

3.1. Council

- To establish the approach to undertaking financial valuations and subsequent revaluations of certain fixed assets of Council;
- To act as stewards for Council's fixed assets;
- To ensure appropriate resources for policy implementation; and
- To integrate fixed asset policies, strategies and plans into the Council governance framework.

3.2. Chief Executive Officer and Management Team

- To develop appropriate integrated fixed asset policy in accordance with relevant Australian Accounting Standards, other legislative requirements and State Government guidelines;
- To implement fixed asset policies, strategies and plans within available resources;
- To monitor and review compliance with fixed asset policies, strategies and plans;
- To ensure that accurate and reliable information is presented to Council that is useful for decision-making; and
- To build Councillor awareness and understanding of fixed asset valuation and revaluation policies, plans and strategies.

3.3. Community Infrastructure & Asset Engineer and Roads & Infrastructure Engineer

- To present information useful for decision making to the Council, Chief Executive Officer and Management Team in terms of asset life cycle risks and costs;
- To conduct expert valuations, conditional assessments and revaluations of infrastructure assets, taking into account the age and condition of assets and replacement cost (engage external contractors where necessary); and

- To work with the Manager, Finance and Corporate Services to ensure infrastructure asset valuation and revaluation adjustments are completed on a timely basis and accurately reported in annual financial statements.

3.4. Manager, Finance and ICT Services

- To manage and keep the corporate finance system up to date, including all asset inventory details;
- To ensure compliance with, Australian Accounting Standards and State Government guidelines with respect to fixed asset valuations and revaluations, reporting fair value (and impairment where applicable) in the financial statements;
- To review annually the need for revaluation of Council owned or controlled asset classes, based on the materiality of valuation movement;
- To ensure revaluations of each asset class, including condition assessments, occurs in a consistent manner and with appropriate frequency;
- To complete infrastructure asset valuations and revaluations in accordance with the valuation methods and frequency for each asset class in Appendix A, to be undertaken by the Council engineers being the qualified expert;
- To complete property asset valuations and revaluations in accordance with the valuation methods and frequency of each asset class in Appendix A, to be undertaken by an independent qualified valuer;
- To ensure asset valuation and revaluation adjustments are completed on a timely basis and accurately reported in the annual financial statements;
- To provide a report to Council's Audit and Risk Committee in June of each year, with respect to fixed assets valuation and revaluation adjustments proposed for inclusion in the annual financial statements; and
- To ensure the annual financial statements are completed in accordance with legislative requirements and made available to external audit for review within agreed timeframes, prior to sign-off by Council.

4. Audit and Review Procedures

The Audit and Risk Committee will review this policy and relevant procedures regularly. Such review will involve:

- Review of Council Policy CP036 Fixed Assets: Valuation and Revaluation (every 3 year);
- Review of asset valuation and revaluation adjustments proposed by Council officers for inclusion in the annual financial statements (every year); and
- Recommendation of the financial statements to Council to adopt 'in principle, via the September Audit and Risk Committee Meeting each year, incorporating any asset valuation and revaluation adjustments reviewed by the Audit and Risk Committee and included in the financial statements.

TRAINING AND/OR COMMUNICATION

Relevant officers will be communicated of any change to this policy on a continuous basis.

CONTINUOUS IMPROVEMENT

This policy will be reviewed on a continuous basis, but as a minimum every three years from the date of adoption.

REFERENCES

Internal:
This Policy is to be read in conjunction with the following Council documents:

- Borough of Queenscliffe Risk Register
- Council Policy CP001: Asset Management
- Council Policy CP030: Asset Disposal

External:
This Policy is to be read in conjunction with the following External documents:

- Australian Accounting Standards Board (AABS) Standards:
  - AASB 116 Property, Plant and Equipment;
  - AASB 13 Fair Value Measurement;
  - AASB 136 Impairment of Assets;
  - AASB 1051 Land Under Roads;
  - AASB 1049 Whole of Government and General Government Sector Financial Reporting; and
  - Local Government: Accounting for non-current physical assets under AASB 116 – A guide, May 2006.

END

APPENDIX A – CONDITION AND VALUATION TABLE

ASSET GROUP	ASSET CLASS	ASSET COMPONENT	USEFUL LIFE	VALUATION	VALUER	DEPRECIATION	REVAL. FREQUENCY
Property	Freehold Land	N/A	N/A	Fair Value (Level 2)	External Certified Valuer	Not depreciated	Quadrennial
Property	Crown Land	N/A	N/A	Fair Value (Level 3)	External Certified Valuer	Not depreciated	Quadrennial
Property	Land Under Roads	N/A	N/A	Fair Value (Level 3)	External Certified Valuer	Not depreciated	Quadrennial
Property	Buildings	Long/Short-life structure	120/60 years	Fair Value (DRC)	External Certified Valuer	Condition-based	Triennial
Property	Buildings	Roof structure	60 years	Fair Value (DRC)	External Certified Valuer	Condition-based	Triennial
Property	Buildings	Mechanical services	25 years	Fair Value (DRC)	External Certified Valuer	Condition-based	Triennial
Property	Buildings	Building fit-out	25 years	Fair Value (DRC)	External Certified Valuer	Condition-based	Triennial
Plant and Equipment	Plant, Machinery and Equipment	N/A	2-10 years	Historical Cost	N/A	Straight-line	N/A
Plant and Equipment	Fixtures, Fittings and Furniture	N/A	3-10 years	Historical Cost	N/A	Straight-line	N/A
Plant and Equipment	Computers and Telecommunications	N/A	3-10 years	Historical Cost	N/A	Straight-line	N/A
Infrastructure	Roads	Kerb	140 years	Fair Value (DRC)	Council's Engineer	Condition-based	Triennial
Infrastructure	Roads	Sealed Pavement	15-90 years	Fair Value (DRC)	Council's Engineer	Condition-based	Triennial

ASSET GROUP	ASSET CLASS	ASSET COMPONENT	USEFUL LIFE	VALUATION	VALUER	DEPRECIATION	REVAL. FREQUENCY
Infrastructure	Roads	Unsealed Pavement	15-90 years	Fair Value (DRC)	Council's Engineer	Condition-based	Triennial
Infrastructure	Roads	Sealed Surface	20-50 years	Fair Value (DRC)	Council's Engineer	Condition-based	Triennial
Infrastructure	Roads	Sealed Road Formation	100 years	Fair Value (DRC)	Council's Engineer	Condition-based	Triennial
Infrastructure	Roads	Unsealed Road Formation	100 years	Fair Value (DRC)	Council's Engineer	Condition-based	Triennial
Infrastructure	Footpaths and Cycle ways	N/A	20-50 years	Fair Value (DRC)	Council's Engineer	Condition-based	Triennial
Infrastructure	Drainage	Drainage Pits	100 years	Fair Value (DRC)	Council's Engineer	Straight-line	Quadrennia
Infrastructure	Drainage	Drainage Pipes	100 years	Fair Value (DRC)	Council's Engineer	Straight-line	Quadrennia
Infrastructure	Drainage	Drainage Pumps	15-35 years	Fair Value (DRC)	Council's Engineer	Straight-line	Quadrennia
Infrastructure	Recreational, Leisure & Community Facilities	N/A	10-100 years	Historical Cost	N/A	Straight-line	N/A
Infrastructure	Waste Management	N/A	5-15 years	Historical Cost	N/A	Straight-line	N/A
Infrastructure	Parks, Open Space & Streetscapes	N/A	5-25 years	Historical Cost	N/A	Straight-line	N/A
Infrastructure	Off-street Car Parks	N/A	12-80 years	Fair Value (DRC)	Council's Engineer	Condition-based	Triennial
Infrastructure	Other Infrastructure	N/A	5-100 years	Historical Cost	N/A	Straight-line	N/A