

Policy P613 Capitalisation & Valuation of Fixed Assets

Responsible Business Unit/s	Financial Services, Asset Management
Responsible Officer	Director Corporate Services, Manager Finance
Affected Business Unit/s	All Business Units

Policy Objectives

Local governments are required to ensure that they have effective and accountable systems in place to safeguard the City's resources. This includes the development of proper systems to record the location and valuation of fixed assets acquired or constructed by the City. Fundamental matters to be considered in the effective management of fixed assets (Property, Plant & Equipment or Infrastructure) are the determination of what constitutes a fixed asset, how they are recorded and how they are valued according to fair value principles as well as at what threshold value they should be capitalised.

Policy Scope

This Policy directly affects the Financial Services Team and Asset Management Team - and informs the preparation of the Annual Financial Statements to ensure the recording of accurate data on fixed assets in accordance with relevant accounting standards and professional announcements. It also directly impacts the way in which assets are maintained and managed by informing maintenance cycles and initiating renewal expenditure. In this way, the policy indirectly impacts the activities of all service departments.

Policy Statement

To permit the preparation of statutory financial statements and to inform the effective planning for, management of and enhancement of fixed assets, expenditures incurred by the City must be classified as either being 'operational in nature' or being such that they result in the creation or renewal of a 'fixed asset'. The manner in which expenditure is classified has a major impact on results disclosed in the Income Statement and on the financial position disclosed in the City's Statement of Financial Position.

Those items that are 'capitalised' as assets must be depreciated over their useful life which is determined according to the particular asset class (and component within that class to which that item belongs). Costs that are simply 'expensed' rather than capitalised are to be included as operating expenditure at the time of incurring the cost.

The nature of the expenditure must be considered in both the budget and financial reporting stages to determine whether it is likely to create a new fixed asset, renew a fixed asset or whether it constitutes a repair or maintenance expenditure. Reference to relevant professional accounting standards and practice statements provide persuasive guidance in this regard. Not only does this determination impact financial results and financial position, but it also impacts the financial ratios by which the City's financial sustainability is assessed.

In determining whether or not an expenditure by the City results in the creation of an 'asset', the City applies the principles contained within the Australian Accounting Standards (AAS) and the Local Government (Financial Management) Regulations 1996 (LGFMR). It also reflects on contemporary best practice principles in asset management. This determination requires the exercise of appropriate professional judgement - and therefore the determination is made only by the City's qualified professional accounting staff in consultation with the City's Asset Management Team.

It is important to effectively balance the administrative workload of recording and maintaining a reliable Asset Register that meets all legislative requirements and asset management responsibilities - including the risk and compliance issues attaching to the proper classification of capital expenditures.

Classification & Capitalisation Thresholds

In accordance with the amendment to the *Local Government (Financial Management) Regulations 1996* (Regulation 17A (4) and (5)) the capitalisation threshold of assets has been amended to \$5,000.

Assets with a fair value less than \$5,000 as at the date of acquisition that are susceptible to theft or loss due to their portable nature and attractiveness for personal use or resale are included under the Portable and Attractive category of the Asset Register.

To permit efficient, accurate and complete recording of fixed assets, expenditure incurred to acquire, renew or enhance an asset should be capitalised if the expenditure meets capitalisation criteria and is above the legislated capitalisation threshold.

Assets are capitalised progressively throughout the year - at the time of acquisition or commissioning ready for use. The legislated asset capitalisation threshold is applied to these assets individually.

The City does not capitalise separate component parts within a larger asset class of Property Plant & Equipment assets- with the specific exception of Buildings which are required to be recorded and valued at the component level.

Infrastructure assets are specifically required to be recorded and valued at fair value (reflected as the current written down replacement cost) compiled at the 'component' level. This methodology recognises the differing useful lives of the various components of the infrastructure assets.

Building assets can be classified as 'Specialised' or 'Non Specialised' which determines the level of valuation inputs required. Buildings are recorded and valued at fair value at the 'component' level to recognise the differing useful lives of the various components of the particular building asset.

Asset Components:

Building assets are segregated into the following (minimum) component classification for the purposes of recording, valuation and maintenance / replacement:

- Building structural shell & sub-structure
- Roof
- Transportation systems (lifts / elevators)
- Electrical systems
- Hydraulic systems
- Security systems
- Fire protection systems
- Mechanical plant (air conditioning plant etc)
- Internal fit-out
- Floor coverings

Note that AV equipment, furniture and fittings are not considered to be part of the building and are separately addressed.

Infrastructure assets are segregated into the components that are considered specific to (and relevant for) that particular asset class as determined by the Asset Management Team - guided by contemporary asset management principles.

Valuation

Valuation and revaluation of City assets are in accordance with the LGFMR specifically Regulation 17A.

The City revalues its assets, subject to revaluation in accordance with the LGFMR:

- If the asset is an investment property —
 - whenever required under the AAS known as AASB 140; and
 - in any event, on the day after the period of 5 years beginning on the asset's last valuation date;
- Otherwise — on the day after the period of 5 years beginning on the asset's last valuation date.
- The City may revalue its assets subject to revaluation in accordance with the LGFMR earlier than required if it chooses to do so.
- The City is not required to comply with the AAS known as AASB 136 to determine the recoverable amounts of its assets subject to revaluation for an impairment indicator of a general decrease in asset values.

The following classes of Property Plant & Equipment are measured using the cost model in accordance with AAS, individual assets may be subject to an impairment test (and possible downwards revaluation) at any time should the City's professional staff deem that the asset has been 'impaired':

- Technology Equipment (Computers, peripherals and communications equipment)

- Furniture & Fittings
- Plant & Equipment
- Mobile Plant
- Right-of-Use Assets (as defined by the LGFMR)

The following asset classes are valued at 'fair value' determined by management valuation representing the written down replacement cost determined using contemporary valuation techniques:

- Land and Buildings, Artworks
- Road Network
- Path Network
- Drainage Network
- Parks Assets
- Street Furniture & Other Assets
- Foreshore Assets
- Car Parking
- Vested Improvements controlled by the City (as defined by the LGFMR)

Certain readily transferable items with a fair value lesser than the \$5,000 capitalisation thresholds, such as mobile telephones or minor mobile plant such as chainsaws or brush-cutters, etc, are recorded under the Portable and Attractive (P&A) category of the Asset Register with their details, serial numbers and location. P&A assets are fully expensed at the date of acquisition and recorded with a nil value on the Asset Register.

In accordance with the LGFMR vested land is a Right-of-Use (ROU) asset to be measured at cost. All ROU assets (other than Vested Improvements which is measured at Fair Value) under zero cost concessionary leases are measured at zero cost e.g. easements, land under roads and land utilised as public open space.

Useful Lives & Depreciation Rates

The City determines the useful lives of fixed assets (and therefore the applicable depreciation rates to be applied), for each class of asset utilising the principles contained in the Institute of Public Works Engineering Australasia Practice Notes, relevant accounting pronouncements and guidelines, its own experience and comparison with other Local Governments. These are re-assessed annually by City officers to ensure that they reflect contemporary practice and compliance with the AAS. They are also subject to annual review by the City's auditors for 'reasonableness'.

The policy in relation to the estimated useful lives which are to be applied to the City's depreciable fixed assets for the purposes of preparing statutory financial statements is:

Legislation / Local Law Requirements

Relevant accounting standards and guidance including, but not limited to the following:

AASB 13 Fair Value Measurement

AASB 116 Property, Plant and Equipment AASB 136 Impairment

AASB 5 Assets Held for Sale AASB 40 Investment Properties
Local Government (Financial Management) Regulations 1996

Other Relevant Policies / Key Documents

City of South Perth Strategic Community Plan 2021 - 2031

City of South Perth Long Term Financial Plan

City of South Perth Asset Management Plans

International Asset Management Manual