

# Non-Current Asset Accounting Policy

*Local Government Act 2009*



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# 1. Policy Statement

This policy provides a framework for the identification and recording of Townsville City Council's (Council) assets in an accurate and cost-effective manner which complies with the *Local Government Act 2009* (the Act), *Local Government Regulation 2012* (the Regulation) and applicable *Australian Accounting Standards and Interpretations*.

# 2. Principles

This policy ensures that Council meets the mandatory asset accounting requirements to maintain compliance with the Act, the Regulation and applicable *Australian Accounting Standards and Interpretations* by providing guidance and clarity regarding:

- accounting for asset acquisitions, construction and development;
- valuation methodology;
- depreciation; and,
- revaluations.

# 3. Scope

This policy applies to all workers who are involved in:

- the purchase, construction and/or subsequent management of Council's non-current assets; and
- statutory accounting and reporting of financial information about Council's non-current assets.

The policy applies to the line items of property, plant and equipment, right-of-use assets and intangible assets as disclosed within Council's General Purpose Financial Statements.

# 4. Responsibility

Role	Responsibility
Chief Executive Officer (CEO) and Managers	Responsible for ensuring this policy is understood and adhered to by all Councillors and relevant workers.
Chief Financial Officer (CFO)	Responsible for: <ul style="list-style-type: none"><li>• decisions on outcome of the Fair Value Assessment of non-current financial assets in accordance with <i>AASB 1031 Materiality</i>; and</li><li>• decisions regarding recognition of network and grouped assets.</li></ul>
General Manager - Engineering, Asset and Infrastructure Planning (EAIP)	Responsible for: <ul style="list-style-type: none"><li>• leading asset custodians within engineering and infrastructure teams to ensure robust compliance with asset recognition, valuation and stocktake procedures; and</li></ul>

Role	Responsibility
	<ul style="list-style-type: none"> <li>driving strategic assessments of asset condition, useful life, and impairment to uphold Council's financial integrity and operational performance.</li> </ul>
EAIP Section	<p>Responsible for:</p> <ul style="list-style-type: none"> <li>performing assessments of asset condition, useful life, and impairment aligns with this policy;</li> <li>forwarding financial data for non-current assets to the Asset Accounting Team;</li> <li>specifying required design life/asset useful life; and,</li> <li>responsible for the prioritisation process for capital works planning and scheduling for new assets, upgrades and renewals of assets.</li> </ul>
Asset Accounting Team	<p>Responsible for:</p> <ul style="list-style-type: none"> <li>assessing financial data for non-current assets;</li> <li>ensuring financial reporting in relation to non-current assets is in line with relevant standards, regulations and this policy.</li> </ul>
Insurance Officer	Responsible for the coordination and placement of Council's insurance portfolio, including insurance coverage for Council's assets.
Councillors and Workers	<p>Responsible for demonstrating full understanding and compliance with this policy.</p> <p>Workers involved in asset-related activities must ensure accurate acquisition, management and reporting of financial non-current assets.</p>

## 5. Definitions

Definitions are as referred to in the Act, the Regulation, the applicable *Australian Accounting Standards* and *Interpretations*, and associated regulations and frameworks. However, some of these definitions allow a range of accounting methods, and these are defined below:

Term	Definition
<b>Amortisation</b>	The systematic allocation of the depreciable amount of an intangible asset over its estimated useful life.
<b>Asset</b>	A resource controlled by Council as a result of past events, and from which future economic benefits are expected to flow to Council.
<b>Asset Custodian</b>	Is a Council employee who is deemed responsible for management decision, performance and condition of Council assets.

Term	Definition
<b>Asset Management</b>	The provision of effective control and governance to infrastructure assets to realise value through managing risk and opportunity, in order to achieve the desired balance of cost, risk and performance.
<b>Beyond Economical Repair</b>	Means a classification given to an asset where that asset requires repairs likely to be more expensive than its replacement value.
<b>Capitalisation</b>	The process by which costs associated with an asset under construction are transferred from capital work in progress to the appropriate asset class once the asset is ready for its intended use.
<b>Capital Expenditure</b>	Costs incurred that have benefits beyond 12-months. The expenditure includes new assets, or renewal, extension or upgrade of the existing asset's underlying service potential.
<b>Capital Renewal Expenditure</b>	Costs incurred in relation to existing assets, which are expected to reinstate the service potential of the asset. Any extension to the life of an asset is incidental.
<b>Capital Upgrade Expenditure</b>	Costs incurred in relation to existing assets, which are expected to enhance the asset to provide a higher level of service or increase the life of the asset.
<b>Capital Work In Progress (WIP)</b>	Assets under construction which have not been capitalised.
<b>Carrying Amount (Written Down Value or Net Book Value)</b>	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
<b>Contractor</b>	As defined in Schedule 4 of the Act, a contractor of a local government means: <ul style="list-style-type: none"> <li>(a) a person who provides services under a contract with the local government; or</li> <li>(b) a person prescribed under a regulation.</li> </ul>
<b>Control</b>	The ability for Council to obtain benefits flowing from the asset and to restrict the access of others to those benefits.
<b>Cost</b>	Amount of cash or cash equivalent paid, or the fair value of any other consideration given to acquire an asset at the time of its acquisition or construction.
<b>Critical Spares</b>	Essential replacement parts for complex assets whose failure would cause significant downtime, safety risk, or financial loss.

Term	Definition
<b>Decommissioning</b>	Disposal of asset's service potential, resulting from a specific management decision.
<b>Depreciable Amount</b>	The cost of an asset, or other amount substituted for cost, less its residual value.
<b>Depreciation</b>	The systematic allocation of the depreciable amount of an asset over its estimated useful life.
<b>Employees</b>	This includes any person employed directly by Townsville City Council but does not include volunteers, contractors, consultants, labour hire or contract personnel.
<b>Financial Asset Register</b>	An internal listing of financially recognised non-current assets and related information used primarily for financial accounting purposes.
<b>Financial Delegation</b>	Means a financial delegation made by the CEO.
<b>Future Economic Benefits</b>	The ability of an asset to provide goods or services in accordance with Council's objectives.
<b>Impairment</b>	Occurs where the carrying amount of an asset exceeds its recoverable amount. For example, this may occur due to damage, obsolescence or discontinuation of service delivery.
<b>Impairment Loss</b>	An expense amount by which the carrying amount of an asset exceeds its recoverable amount.
<b>Intangible Asset</b>	An identifiable non-monetary asset without physical substance.
<b>Manager</b>	An individual responsible for overseeing and coordinating specific functions, departments, teams or projects within Townsville City Council.
<b>Non-Current Asset</b>	An asset that provides an economic benefit for a period greater than one year.
<b>Off Maintenance</b>	A point in time that the period of "on maintenance" applicable to donated assets expires or ceases.
<b>On Maintenance</b>	A point in time that Council takes ownership of assets handed over by a property developer. "On maintenance" refers to the defects liability period during which the responsibility of defect rectification of donated assets is with the property developer.
<b>Operating Expenditure</b>	Costs incurred in relation to running an asset, which may include expenses, such as electricity, fuel, corporate overheads, etc. Maintenance expenditure to keep the asset in

Term	Definition
	an operational state also falls under the operating expenditure definition.
<b>Recognition Threshold</b>	A dollar value an asset should exceed to be recognised in the financial asset register.
<b>Recoverable Amount</b>	Is the higher of an asset's fair value less costs of disposal, or value in use.
<b>Residual Value</b>	The estimated amount that Council would 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.
<b>Right-Of-Use Asset</b>	Asset acquired by way of a contract, or part thereof, that conveys the right to use the asset for a period of more than 12 months in exchange for consideration. The items meet the recognition requirements in <i>AASB 16 Leases</i> , and an offsetting liability is created. The leased assets are expensed as depreciation and interest in the financial statements, while the leased rental payments are allocated to the appropriate liability account in the statement of financial position.
<b>Service Potential</b>	The capacity to provide goods and services in accordance with Council's objectives.
<b>Useful life</b>	The period over which an asset is expected to be available for use by an entity.
<b>Workers</b>	Includes employees, contractors, volunteers and all others who perform work on behalf of Council.
<b>Written Delegation</b>	Means a written authority to make decisions on behalf of Council. This includes delegations from: <ul style="list-style-type: none"> <li>• Council to the CEO; and</li> <li>• the CEO to an employee or contractor.</li> </ul>

## 6. Policy

### 6.1. Asset Classes

An asset class is a grouping of non-current assets of a similar nature and use, recognised in Council's financial asset register for the purposes of statutory reporting under the *Australian Accounting Standards*, which may differ from asset categories/portfolios used for the purposes of asset management. The following asset classes are reported by Council:

- assets under construction (WIP);

- buildings;
- cultural and heritage;
- dams and weirs;
- fixed plant;
- intangible assets;
- land;
- land improvements;
- landfills;
- pipe network;
- plant and equipment;
- right-of-use assets; and,
- transport network.

## 6.2. Asset Recognition

### 6.2.1 Asset Recognition Criteria

The following criteria must be satisfied for Council to recognise an item as a non-current asset in Council's financial asset register:

- it is probable that the future economic benefit associated with the item will flow to Council;
- the cost or fair value of the item can be measured reliably;
- the cost or fair value of the item exceeds Council's asset recognition threshold;
- Council has control over the item; and,
- the item is not held for sale and is expected to be used by Council for more than 12 months.

### 6.2.2 Asset Recognition Threshold

As per section 206 of the Regulation, Council has set an amount for each type of non-current physical asset listed below, for which the value of an asset of the same type must be treated as an expense.

Recognition thresholds to be applied on acquisition of an asset are as follows:

Threshold Category	Threshold (excluding GST)
Property, Plant & Equipment (including right-of-use assets, intangible assets)	\$10,000

Specific Threshold Category	Threshold (excluding GST)
Library Collection	\$1,000,000
Land	\$1
Network Assets or Grouped Assets (collective value)	\$10,000

Minor land parcels with no market value are recorded in Council's financial asset register at a nominal value.

### 6.2.3 Asset Recognition Date

Depreciation of the asset begins from the commissioning date. A non-current asset's commissioning date shall be the date when the asset is available for use for its intended purpose, which is the as-constructed date, delivery date, contract date or title transfer date.

In the instance of developer donated infrastructure, the "on maintenance" date shall be recorded as the commissioning date due to Council taking ownership of assets handed over by a property developer.

### 6.2.4 Complex Asset

A complex asset is one where it can be apportioned to individual significant components. A component of a complex asset must be:

- separately identifiable; and
- have a significant value individually and in relation to the total cost of the complex asset.

The components of a complex asset are depreciated separately as they may require replacement during the life of the complex asset and have different useful lives to that of the complex asset they are a component of. Components will be capitalised provided that the total capital project expenditure is above the asset recognition threshold.

### 6.2.5 Network Asset

A network asset forms a grouping of interconnected but dissimilar assets that are individually below the capitalisation threshold, however as a whole the grouping is material in value and performs one simultaneous service thus requiring recognition in the financial statements (e.g. a park asset).

The decision on whether to recognise assets as a network asset must be made by the CFO.

### 6.2.6 Grouped Asset

A grouped asset consists of similar assets that deliver the same type of service. While each asset may fall below the capitalisation threshold, if the combined value of the group is material in value, recognition of the grouped asset is required in the financial statements (e.g. water meter assets).

The decision on whether to recognise assets as a grouped asset must be made by the CFO.

## 6.3. Donated Assets

Donated assets (also known as contributed assets) are assets acquired by Council at nil cost or nominal value by way of contracts with developers, State Government arrangements or bequests to Council.

The development assessment process, established under Chapter 3 of the *Planning Act 2016* and guided by Council's City Plan, determines the necessity and standards for developer delivered donated assets, such as road, water, wastewater, stormwater and park infrastructure. Through this process, Council evaluates and approves donated infrastructure assets to ensure community needs and statutory requirements are met.

Land assets donated to Council are recognised as at the date the title passes to Council. Donated infrastructure is recognised when a practical completion inspection has been undertaken, and the asset becomes “on Council maintenance”.

The cost of a donated asset is the fair value at the date of acquisition as assessed by a suitably qualified person, which is not considered a revaluation of the asset at that time.

## 6.4. Not Previously Recognised (Discovered) Assets

Council may acquire and recognise “discovered” assets. Circumstances such as revaluations, stocktakes or other data cleansing may identify assets not previously recognised or held at a nominal amount.

## 6.5. Capital Expenditure

Capital expenditure can relate to new or existing assets. There are three types of capital expenditure - new, upgrade and renewal. Capital expenditure is recorded in Council’s Work In Progress account.

## 6.6. Asset Valuation

Property, plant and equipment assets are initially recorded at cost. Cost is determined as the fair value of consideration plus costs incidental to the acquisition. Direct labour, materials, critical spares at time of asset acquisition, and an appropriate portion of overheads incurred in the acquisition or construction of assets are also included as capital costs.

Property, plant and equipment received in the form of developer contributions (donated assets), for significantly less than fair value or as offsets to infrastructure charges, are recognised as assets and revenue at fair value.

Right-of-use assets are measured using the cost model where cost on initial recognition comprises the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives received.

Each asset class is stated using the following method subsequent to initial recognition.

Cost	Fair Value
Plant and equipment, Right-of-use assets and Intangible assets.	Buildings, Dams and weirs, Fixed plant, Cultural and heritage, Land, Landfills, Land improvements, Pipe network and Transport Network.

### 6.6.1 Asset Valuation Method

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in an active market. Valuation techniques used across Council may vary depending on asset characteristics. To determine fair value, the Council shall apply a valuation technique that is most suitable and supported by sufficient data. When market evidence is available, preference is given to utilising the market value approach. However, since most of the Council’s assets are infrequently traded

and reliable comparisons with similar assets are not readily available, the cost approach is the most appropriate method for valuing most of the Council's asset classes.

## 6.6.2 Asset Revaluation

In accordance with *AASB 116 Property Plant and Equipment*, all non-current physical assets measured at fair value must be comprehensively revalued by a suitably qualified person at least once every five years. Revaluations are to be completed simultaneously for all underlying assets within the asset class.

An interim revaluation using indices developed via a desktop approach is to be undertaken annually for an asset class subject to regular revaluations, where indicators exist that the asset class has experienced a significant and volatile change in value since the last reporting period.

## 6.7. Asset Review and Physical Stocktake of Assets

Asset custodians and managers are to conduct an asset review and physical stocktake on an annual basis to ascertain if any amendments are required at the end of each financial year, including the following considerations:

- depreciation rate;
- condition;
- useful life;
- impairment; and,
- residual value.

Asset custodians with the required technical expertise and knowledge must certify and substantiate their estimates. In instances where such expertise is not available within Council, asset custodians should seek external professional assistance to conduct the assessments.

### 6.7.1 Physical Stocktake of Assets

The manager who is an asset custodian of assets carried at cost must confirm and record the physical existence and location of all assets under their control each financial year. The methodology of the stocktake should be efficient, cost effective and in proportion to the materiality of the value of the assets. For underground or otherwise non-visible assets, where physical sighting is not possible, verification must be performed through alternative reliable evidence.

Asset custodians must report the loss of assets, obsolescence and loss of asset value to Council through Council's internal asset disposal or lost and stolen items reporting mechanisms, where applicable.

### 6.7.2 Asset Impairment

Asset custodians and managers are required to annually review Council's non-current assets for signs of impairment. Impairment of an asset may arise when significant adverse changes occur or are expected to occur in the way the asset is used or is expected to be used. These changes may include the asset becoming idle, plans to discontinue or restructure the operations it supports, or intentions to dispose of the asset earlier than previously anticipated. Additionally, impairment may result from specific events such as physical damage, obsolescence or any other factor that reduces the

asset's service potential. Temporary retirement from use does not in itself constitute impairment unless the asset's recoverable amount falls below its carrying amount. When an impairment event occurs, the asset's service potential is reduced, leading to an impairment loss if the asset's carrying amount exceeds its recoverable amount.

Impairment losses are recorded as expenses in the Statement of Comprehensive Income, except for assets measured at fair value. For revalued assets, impairment losses are first offset against the asset revaluation surplus of the relevant asset class, with any remaining loss expensed in the Statement of Comprehensive Income.

The asset custodian must advise the Asset Accounting Team of any assets which have incurred a material change in condition or functionality as soon as practicable to allow for updating of changes in the financial asset register.

## 6.8. Depreciation or Amortisation Method

The method of depreciation shall align with the anticipated pattern of consumption for all Council's non-current assets. The straight-line depreciation or amortisation method is utilised by Council, as it reflects patterns of consumption for all non-current assets other than the following, which are not subject to depreciation:

- land;
- cultural and heritage assets;
- reservoir foundations;
- weir formations;
- dam formations; and,
- road formations.

## 6.9. Asset Disposal

An asset is to be derecognised in the financial asset register when it is sold, scrapped, used for spare parts, lost, stolen, decommissioned, beyond economical repair, or by any other factors which cause an asset to cease providing a future economic benefit to Council or no longer be under the control of Council.

The derecognition of an asset should be authorised by the relevant asset custodian with the appropriate written and financial delegation and reported in the same financial year in which the asset was disposed.

### 6.9.1 Partial Disposal

Partial disposal of a non-current asset takes place when a significant component or section of an asset is scrapped or decommissioned with no future economic benefit expected to be generated from its use.

Partial disposal can also occur when significant renewal work has been carried out, leading to the replacement of a major part or section of the asset.

## 7. Legal Parameters

*Local Government Act 2009*

*Local Government Regulation 2012*

*Planning Act 2016*

Australian Accounting Standards:

- *AASB 5 - Non-current Assets held for Sale and Discontinued Operations*
- *AASB 13 - Fair Value Measurement*
- *AASB 16 - Leases*
- *AASB 101 - Presentation of Financial Statements*
- *AASB 116 - Property, Plant and Equipment*
- *AASB 136 - Impairment of Assets*
- *AASB 138 - Intangible Assets*
- *AASB 1031 - Materiality*

## 8. Associated Documents

Asset Management Policy

City Plan

Delegations Policy

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