



Council Policy Manual

CP9.11 Fixed Assets Financial Policy

POLICY OBJECTIVE

The Fixed Assets Financial Policy provides for the accounting treatment of non-current physical assets owned by the City.

POLICY STATEMENT

INTRODUCTION

This policy applies to accounting for property, plant, equipment and infrastructure and distinguishes between expenditure that is capitalised, representing future economic benefits, and carried forward to future accounting periods, as opposed to expenditure that is regarded as repairs or maintenance and treated as an expense in one accounting period. The policy covers the treatment of physical non-current assets only and excludes accounting for intangibles, receivables, financial instruments and securities.

PURPOSE AND OBJECTIVES

The purpose of this policy is to ensure the transparency and consistent disclosure of the fixed assets owned or controlled by the City of Perth at fair value. Objectives are as follows:

- Clearly enumerate the situation in which assets will be capitalised.
- Lay out the elements of the cost of assets that will be recognised.
- State the circumstances in which assets can be revalued and brought to account at fair value.
- Set parameters for calculating depreciation and the useful life of assets.
- Disclose requirements relating to assets and particularly their classification.
- List circumstances where an asset may be impaired and require an adjustment to carrying value.

SCOPE

The scope of this policy is to communicate the accounting treatment applicable to fixed assets being infrastructure and property plant and equipment.

Consideration must be given to the cost of collecting data including that of supporting systems. It is essential that the result be the production of meaningful information for decision making and compliance.



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There is a distinction between data collected for financial control purposes and that collected for asset management. Financial information sits above the Asset Management register and may be held at a higher level without the same level of component breakdown.

CAPITALISATION OF ASSETS

Except for software fixed assets with a cost exceeding \$5,000 will be capitalised where it is probable that future economic benefits associated with the item will flow over several years.

The development or purchase of software is to be capitalised where an asset is created which will benefit the organisation over more than one year. Due to the rapid obsolescence factor, software is capitalised only when it has a cost in excess of \$50,000.

The costs of day to day servicing and maintenance of an asset are expensed as repairs and maintenance. Where a refit enhances capacity of the asset, or replaces a component separately listed in the asset register, the item is to be capitalised. The asset being replaced must be retired.

Cost may include the following components:

- The purchase price after deduction of trade (not cash) discounts and rebates.
- Cost of transport to location.
- Commissioning costs to take it to an operational state.
- Costs of employees (including benefits) directly attributable to the construction or installation of an asset.
- Site preparation.
- Testing.
- Professional fees (including internal fees e.g. employee costs including on cost of design or project management).
- Interest during construction phase where loan finance is in place.

In capitalising assets that are constructed by the City, the same principles are applied as in acquiring an asset. Abnormal amounts of waste should be eliminated. Cost must add inherent value to the project. Recovery of direct overhead is permitted providing no internal profit element is incorporated in the recovery rate.

Contributed fixed assets are brought to account at fair value.

DISPOSAL OF ASSETS

Assets shall be regarded as being disposed of when no longer required by the City, and when sold, scrapped, traded or donated. The carrying amount of an asset shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. All disposals of



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Property (Assets) shall be accomplished in accordance with Council Policy 9.14 Disposal of Property.

FAIR VALUE AND REVALUATION

Revaluation is the process of adjusting the carrying value of an asset to reflect its fair value.

The balance sheet is intrinsically a collection of economic values.

Once replacement cost of infrastructure is established, care must be taken to calculate both the design life and the remaining life of the asset. This will enable the depreciated replacement cost to be calculated and recorded.

The fair value of realisable assets is at open market value rather than market value on existing use. This is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. Fair value is “the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm’s length transaction.”

Land and buildings are valued independently on the basis of market based evidence except that a limited number of buildings would qualify as specialist buildings. These would be where community use was the paramount reason for their current existence. Depreciated current replacement cost would be the valuation methodology most suitable in these cases.

Improvements to leasehold property are short-term in nature and are written off based on cost over the term of the lease. If the City has an option to renew the lease and there is reasonable certainty that it will exercise it, improvements should be expensed over the full term of the lease including the period over which the option is exercised.

Infrastructure assets will be valued in-house on a depreciated current replacement cost base.

Public art, art and artefacts will require a specialist valuer and where possible will be valued at market value.

Furniture and equipment (including IT hardware and software) will be valued at cost less depreciation.

Appraisals of plant, fleet and mobile equipment will be based on replacement cost and expected remaining life, taking into account any residual value at the anticipated sale point.

The entire class of an asset shall be revalued every three years. The revaluation of individual items of property, plant and equipment cannot be carried out in isolation.



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Accounting for revaluation involves the creation and maintenance of an asset revaluation reserve containing the net increase on revaluation of each class of assets over its original cost.

ASSETS HELD FOR RESALE

Fixed assets are classified as held for sale if their carrying amounts are to be recovered through a sale transaction rather than continuing use. These assets are disclosed separately and are reclassified as current if immediately available for sale. Anticipated costs of sale are deducted from the fair value of such assets and, the lower of carrying value or fair value less cost of sale is recorded in the books. Impairment will be applied where realisable values are materially less than carrying values.

INVESTMENT PROPERTY

Investment property is land and buildings or a predominant part of a building that is held to earn rental or for capital appreciation or both, rather than for the production of goods or services or for administrative use. If the primary purpose is to provide a social service, the property is not an investment property. Investment property is not depreciated. The property is valued by an independent valuer each year at fair value based on market evidence.

DEPRECIATION

- The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
- Depreciation applies to most classes of assets. Components of assets can be depreciated separately at different rates.
- Land, investment property, assets held for resale and artworks are not depreciated.
- Depreciation rates are set to systematically reduce the carrying amount of an asset to a value where applicable, (the residual value) at which it can be sold at the end of its useful life to the City.
- Depreciation commences when the asset is available for use and ceases when the asset is sold, fully depreciated, scrapped or gifted.
- Depreciation rates derived from the expected useful life of the asset should reflect the consumption of future economic benefits, physical wear and tear, obsolescence, lease expiry and the sale or scrap price of the asset when its useful life to the City ends.



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- Leasehold improvements are amortised over the term of the lease including options to renew where the City reasonably intends to exercise the options for extending the lease providing the improvements will serve out the term of the lease.

IMPAIRMENT OF FIXED ASSETS

Assets are not carried in excess of their recoverable amounts. An annual review is conducted of assets that may be subject to the risk of impairment.

Car parking assets and investment properties are held for economic reasons. These assets should be separately identified and tested in relation to carrying values.

Impairment should be utilised where it is apparent that an asset is overvalued due to a change in circumstances permanently lowering its value. Impairment, once established, should be reviewed annually to determine whether all or part of it should be adjusted.

REPORTING AND DISCLOSURE

This policy encourages transparent reporting and the City will disclose significant assets, depreciation rates and relevant information, where it is material and adds to useful information for stakeholders, or is needed for decision making by management.

Asset classes are separately disclosed in the accounts. Sub classes may be shown where relevant and material

RISK MANAGEMENT

- Fixed assets are the prime physical assets of the City.
- It is incumbent on the City to insure its assets at insurance values which generally equate to replacement cost and allowances for design fees, demolition and removal of debris.
- Infrastructure is not insured as a matter of policy because risk of loss through insurable events is considered low.

REVIEW

Circumstances and asset types change over time. The policy should be reviewed every two years and adjusted or updated in accordance with that review.



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3.	Unit managers 27/7/2018	Policy previously assigned to Asset Management. Asset Management Unit manager and Finance Unit manager confirmed this policy sits with Finance.					