COUNCIL POLICY 1.4

Non-Current Asset Policy

Version: V1 – 24/12/9

PURPOSE

The purpose of this policy is to regulate and guide the identification and recording of assets of the Torres Shire Council to ensure compliance with the *Local Government Act 2009*, Local Government Regulation 2012 and *Australian Accounting Standards* (AASB) and Interpretations.

SCOPE

This policy applies to all asset accounting related activities for property, plant and equipment, and intangible assets. Please refer to the following asset classification section for specific details of the asset classes and examples of assets in each class.

This policy does not apply to property, plant and equipment that are held for sale which will be recorded in accordance with Accounting Standard AASB 5 Non-Current Assets held for Sale and Discontinued Operations, and disposed in accordance with the Local Government Act 2009, and other relevant Council policies and procedures.

OBJECTIVES

The objectives of this policy are to;

a) Ensure compliance with prescribed legislation and Australian Accounting Standards.

b) Outline the accounting principles to be followed by Council employees when identifying, recognising, recording and valuing Torres Shire Council's property, plant and equipment.

DEFINITIONS

Asset is a resource controlled by the Council as a result of past events and from which future economic benefits are expected to flow to the Council. The asset can be tangible, i.e. have a physical substance (e.g. land, buildings) or intangible, i.e. no physical substance (e.g. computer software).

Asset Class is a grouping of assets of a similar nature and use, e.g. land, buildings, plant and equipment

Asset Custodian is a Council officer who has the day–to–day management of a Council asset.

Cost is the amount of cash or cash equivalents paid, or the fair value of the other consideration given, to acquire an asset at the time of its acquisition or construction, e.g. contributed physical asset.

Cost Approach is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Council Control - Council has control of an asset if Council has the power to obtain the future economic benefits flowing from the resource and to restrict the access of others to those benefits.

Depreciable Amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Economic Benefit is the potential to contribute, directly or indirectly, to the flow of cash or cash equivalents to the Council. It includes social, environmental and financial benefits to Council.

EXPENDITURE DEFINITIONS

Operating expenditure is recurrent expenditure that is continuously required, e.g. electricity, staff, overheads, fuel.

Maintenance expenditure is recurrent asset expenditure that is periodically or regularly required as part of the anticipated schedule of works required ensuring the asset achieves its useful life. It can include, minor parts, painting, servicing, repairs, etc.

Capital expenditure is major expenditure that has benefits beyond 12 months. It includes renewal/replacement, upgrade and new assets.

Capital renewal/replacement is periodical expenditure on existing assets that returns the service potential or the life of the asset up to that which it had originally.

Capital upgrade is expenditure that enhances an existing asset to provide a higher level of service or increase the life of the asset beyond its original life, e.g. widening of road, building extension.

Fair Value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

First Principles – Current purchase prices are obtained for components of the asset together with the costs to install, which may include plant, labour and sundry material costs.

Impairment – an asset is impaired when its recoverable amount is less than its carrying amount.

Infrastructure Assets – typically these assets are large interconnected networks or composite assets that meet the needs of the community, e.g. roads, water, sewerage. Generally, these assets have long lives and often have no market value.

Income Approach is a valuation technique that converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Inputs – The assumptions that market participants would use when pricing the asset, including assumptions about risk, such as the following:

The risk inherent in a particular valuation technique used to measure fair value; and the risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

Level 1 inputs – Quoted prices (unadjusted) in active markets for identical assets that the entity can access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included in within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – Unobservable inputs for the asset.

Market Approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets or group of assets, such as a business.

Observable inputs – Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset.

Unobservable inputs – Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset.

Material – Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Minor assets are items that would meet most of the asset recognition tests but have been acquired for cost less than $10,000 (Infrastructure assets) or $5,000 (all other assets). These assets are treated as an expense as they are under the capitalisation threshold.

Nominal Cost means an asset provided to Council at no cost or a very small amount.

Non-Current Asset is an asset that provides an economic benefit for a period greater than one year.

Recoverable Amount is the higher of an asset's net selling price and its value in use.

Remaining Useful Life is the remaining operational life of an asset, irrespective of the period an asset has been in use and its initial estimate of useful life.

Useful Life is the period over which an asset is expected to be available for use by Council.

POLICY STATEMENT

ASSET CLASSIFICATIONS

An asset class is a grouping of non-current assets in the financial asset register of a similar nature and the lowest level of information on non-current assets included within Council's financial statements. The following asset classes are reported by Council:

- Land
- Buildings
- Other Infrastructure Assets
- Plant and Equipment

- Furniture and Equipment
- Roads,Drainage and Bridge Network
- Water Infrastructure
- Sewerage Infrastructure
- Airport Infrastructure
- Capital Works in Progress

ASSET RECOGNITION

The following criteria must be met for an item to be recognised as an asset in the Council's financial asset register:

- It is probable that future economic benefits associated with the item will flow to Council;
- The cost or fair value of the item can be measured reliably;
- Council has control over the asset;
- The cost or fair value exceeds Council's asset recognition threshold;

Australian accounting standard AASB 116(10) states that under the recognition principle, an asset is to be recognised when costs are incurred. An item that meets the definition of an Asset shall be measured at cost in accordance with AASB 116:

The cost of an asset will include:
- Purchase price less deductions (rebates, discounts etc.)
- Costs directly attributable to bringing the asset to a location where it can be used as intended. This would include:
    - Employee compensation. This includes costs of employee benefits arising directly from the construction or acquisition of the asset: eg outside wages, inside project management costs, and "on costs" such at superannuation and workers compensation.
    - Site preparation and/or restoration - Assembly costs
    - Professional fees
- Initial estimate of costs to dismantle and remove the item and restore site location where the obligation is recognised and measured under AASB137 Provisions, Contingent Liabilities and Contingent Assets, e.g. Landfill restoration.

Purchase Costs excluded in the cost of an asset include:
- Marketing and advertising costs incurred when opening a new facility.
- Costs incurred after the date an asset is deemed in use (upgrades, maintenance, etc.).
- Avoidable costs.
- Financing Costs – Interest charged on borrowings to fund asset purchase.
- Preliminary Studies.

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. Council 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 due to a change in the future economic benefits of that class.

Expenditure after Initial Purchase
Where costs are incurred subsequent to the initial purchase of the asset, they can only be capitalised when it improves the condition of the asset beyond its originally assessed standard of performance or capacity. This can occur through:
- extending the annual service potential provided by the asset, or
- extending the useful life of the asset

Repairs and maintenance are to be expensed as incurred e.g. repairs for damage or wear or tear that would have prevented the asset reaching its original estimated useful life, such as day to day servicing.

Spare Parts

Minor items of spare parts are charged to the item of plant and expensed to the Statement of Comprehensive Income .
Major spare parts and stand-by equipment are recognised as plant and equipment when:

- The expenditure exceeds the asset recognition threshold, and
- The benefits from the item will be for more than one financial year.

ASSET RECOGNITION THRESHOLDS

Council is required under the Local Government Regulation 2012 s 206 (2) by resolution to set an amount for each different type of physical asset below which the value of the asset must be treated as an expense.

If the expenditure for the item is equal to or above the threshold it may be capitalised as an asset if it meets all the recognition criteria. Capitalisation is the process of recognising an asset in Council's financial statements as a non-current asset.
The threshold to recognise costs as an asset are as follows:

Asset Type	**Threshold (GST exclusive)**
Land	$1
Land Improvements	$5,000
Buildings	$5,000
Infrastructure (Roads & Drainage, Water, Sewerage & Airport)	$10,000
Plant & Equipment	$5,000
Office Equipment, Furniture & Fittings	$5,000
All Other Assets (including intangible assets)	$5,000

The above thresholds must be disclosed by way of note in the Council's general purpose financial statements.

Buildings, Other Assets and Infrastructure asset classes – If the total capital expenditure per project exceeds the asset class capitalisation threshold, as stated in the recognition threshold table above, the project is capitalised irrespective of whether or not the individual asset components exceed the capitalisation threshold.

Minor land parcels which have no market realisable value and possess limited or negligible service potential, for example, access restrictions, pump stations, are recorded in Council's financial asset register at a nominal value.

Land that is a reserve under the Land Act and a road that is not owned by the Council do not have a value for the purposes of the Council's general purpose financial statements.

CONTRIBUTED ASSETS

All Council assets that qualify for recognition are to be measured initially at cost. Where Council acquires an asset at nil cost or nominal value the asset is called a contributed asset. This can occur by way of contracts with developers, State Government arrangements or bequests to Council. If the contributed asset is land, Council takes ownership when the title passes to Council. If the contributed asset is infrastructure, Council takes ownership when a practical completion inspection has been undertaken and the asset becomes “on Council maintenance”. The cost of a contributed asset is the fair value at the date of acquisition as assessed by a suitably qualified person. This is not considered a revaluation of the asset at that time.

NOT PREVIOUSLY RECOGNISED ASSETS

Where material assets are identified from prior accounting periods that have not been recognised in the financial statements they should be treated as a correction of an error under AASB108 Accounting Policies, Changes in Accounting Estimates and Errors. Prior period comparative information will need to be adjusted to reflect the not previously recognised assets when they are material.

NETWORKED ASSETS

A network is a grouping of multiple assets that are individually below the capitalisation threshold. These assets perform a whole service and require recognition in the financial statements due to their collective value, e.g. library books, council waste bins.

ASSET DISPOSAL

An asset is to be derecognised in the financial asset register when it is sold, traded, scrapped, lost, stolen, destroyed, decommissioned, or abandoned.

If the asset is to be sold, the provisions of AASB5 Non-Current Assets Held for Sale and Discontinued Operations may apply.

When an asset is destroyed, scrapped, lost, or stolen, it is written-off and a loss is recorded in the Statement of Comprehensive Income .

ASSETS WITHDRAWN PERMANENTLY FROM USE AND DEMOLITION/REMOVAL

Where an asset is permanently retired from use, the fair value of the asset must be reviewed. If the asset class to which the asset belongs is not being revalued, then the provisions of AASB136 Impairment of Assets may apply.

Where an asset is demolished, and a new asset is constructed in its place, the carrying amount of the old asset is derecognised in accordance with AASB116 Property Plant & Equipment. The cost of demolition or removal of the old asset can be capitalised as site preparation costs of the new asset only if there is:

- No provision for restoration of the old asset, and
- Prior to demolition a formal Council commitment to demolish and build on the site of the old asset, e.g. Council meeting minute.

If an asset is demolished or removed and there is no formal commitment to rebuild on the site prior to demolition or removal, the costs are to be expensed. If the asset is valued at fair value and the costs of demolition or removal have been capitalised as site preparation costs, consideration should be given to impairment tests to ensure the asset value is not overstated.

REGISTER OF NON-CURRENT ASSETS

A list of all Council’s non-current assets, other than those items which are under the asset threshold and treated as an expense, must be recorded in a register which is to be kept by the Council. The asset register is to record as a minimum:

i. opening and closing balances;
ii. capital expenditures;

iii. depreciation charges;
iv. revaluation increments and decrements;
v. disposals/write offs;
vi. not previously recognised and contributed assets;
vii. internal transfers;
viii. impairment losses;
ix. all relevant dates of the above; and
x. estimated useful life

COMPLEX ASSETS

A complex asset is one where it can be apportioned to significant components.

Complex assets include buildings (e.g. major community and corporate building), road networks, and water and sewerage distribution networks. The significant components of a complex asset are identified and depreciated separately. This provides more reliable and relevant information for users of the financial statements and asset management. A significant component is one that meets the following criteria:

a) Can be separately identifiable and measurable and is able to be separated from the complex asset;
b) Requires replacement at regular intervals during the life of the complex asset that is different to other components;
c) Has a significant value in relation to the total cost of the complex asset;
d) Has a different estimated useful life from the complex asset so that failure to depreciate it separately would result in a material difference in the annual depreciation expense for that asset.

Examples of complex assets and their potential significant components are:

- Roads – subgrade, pavement, seal, kerb and channelling, footpaths, roundabouts
- Buildings – substructure, superstructure, roof structure, roof sheeting, finishes (fit-out), fittings, services and external services

On replacement of a component of a complex asset the existing written down value of the original component should be derecognised.

Components will be capitalised if the total capital project expenditure meets the asset recognition threshold.

DEPRECIATION

Where non-current assets have a limited useful life, they must be depreciated in accordance with *AASB116 Property, Plant and Equipment*.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciation begins when an asset is available for use and ceases at the earlier of:

- The date the asset is classified as held for sale, and
- The date that the asset is derecognised.

The depreciable amount is the cost of an asset, or other amount substituted for cost.

Useful life is the period over which an asset is expected to be available for use by an entity.

Each part of an item of property, plant & equipment with a cost significant to the total cost shall be depreciated separately (complex assets).

The depreciation charge for each period is classified as an expense in the Statement of Comprehensive Income. Depreciation forms part of the cost of operations and contributes directly to Council's net operating result.

The depreciable amount of improvements to or on leasehold land is allocated progressively over the estimated useful lives of the improvement to the Council or the unexpired period of the lease, whichever is the shorter.

The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The straight-line method of depreciation is adopted by Council to reflect patterns of consumption for all non-current assets other than Land and Heritage Assets which are not subject to depreciation.

Work in progress cannot be depreciated as the assets are not available for use.

Re-Life fully Depreciated Assets

Where an asset is valued at cost and it has been fully depreciated but is still in use, a re-life of the asset is not possible.

Where an asset is valued at fair value the revaluation process should ensure that an asset still in use has some useful life. Where however the fair value has been written down to zero and the assets are still in use, they can be re-life and revalued if they are material.

<u>Useful Life</u>

Below is the range of estimated useful life in years by Asset Class:

Asset Class	Estimated Useful Life
Buildings	20 - 80
Other Infrastructure	10 - 100
Plant and Equipment	2 - 15
Furniture and Equipment	8
Roads, Drainage and Bridge Network	7 - 100
Water Infrastructure	7 - 200
Sewerage Infrastructure	7 - 80
Airport Infrastructure	10 – 1,000

ASSET REVIEWS

Asset depreciation rate, remaining useful life, impairment and residual value are to be reviewed at least at each financial year-end by Asset custodians and management to ascertain if any amendments are required.

VALUATION OF ASSETS

An item of property, plant and equipment that qualifies for recognition as an asset shall initially be measured at cost.

Subsequent to initial recognition, Council shall choose either to use the Cost Basis or Fair Value Basis for the valuation of non-current assets.
Council adopts to apply the:

- Cost Basis for Plant and Equipment and Furniture and Equipment
- Land, Buildings, Other Infrastructure, Roads, Drainage and Bridge Network, Water, Sewerage, Airport Infrastructure are measured, at fair value and in accordance with AASB 116 Property Plant & Equipment and AASB 13 Fair Value Measurement.

Valuation Method by Asset Class

Fair Value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

To calculate a fair value pursuant to AASB13, information must be obtained, and/or assumptions made, about a range of factors, including but not limited to:

- the characteristics eg. The condition and location of the asset;
- which market a sale of that asset would take place in;
- who would buy the asset and what they would take into account;
- what is the highest and best use for the asset; and
- which costs are to be taken into account

Council shall use a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The valuation technique is used to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. The three commonly used valuation techniques are

- market approach, or
- income approach, or
- cost approach.

The fair value measurement assumes that the transactions are taking place in either the principal market or, in the absence of a principal market, the most advantageous market for the asset. AASB 13 states that an entity's current use of an asset is presumed to be the highest and best use, unless market or other factors suggest that a different use would maximise the value of the asset.

Regardless of which valuation technique is used, the data inputs used for the calculation must be categorised into one of the three levels of the fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Valuation inputs that are observable are more reliable than inputs that are unobservable, as often unobservable inputs are derived by an entity rather than reflecting market evidence. Unobservable inputs used must reflect the assumptions market participants would use when pricing the asset. When there is observable data for similar assets available, that data is likely to represent the best indicator of the asset's fair value. For example some land and general non-specialised buildings may be valued using the market approach.

The majority of Council's assets are rarely traded and reliable comparisons with similar assets do not exist, therefore the cost approach will be the most appropriate method. Current Replacement cost (CRC) is the most common valuation technique under the cost approach.

To calculate depreciated replacement cost the current replacement cost of the asset is calculated then accumulated depreciation is deducted. Accumulated depreciation represents the expired portion of the economic benefits of the asset.

The valuation method for each Asset Class subsequent to initial recognition is:

Asset Class	Valuation Method
Land	Market Approach
Buildings	Fair Value *(Market approach or cost approach where no market is readily available or if the building is of a specialised nature)*
Other Infrastructure	Fair Value – Cost Approach
Plant and Equipment	At Cost
Furniture and Equipment	At Cost
Roads, Drainage and Bridge Network	Fair Value – Cost Approach
Water Infrastructure	Fair Value – Cost Approach
Sewerage Infrastructure	Fair Value – Cost Approach
Airport Infrastructure	Fair Value – Cost Approach

Transfers Between Levels

From year to year, the Council must review the fair value levels assigned to its assets in light of changes in asset characteristics, changes in market conditions and/or valuation techniques (eg use of indices) and changes in the nature/quality and significance of data inputs used in determining fair value. Any resulting transfers (in or out) between levels of the fair value hierarchy shall be recognised at the end of the reporting period.

REVALUATION OF ASSETS

For all assets other than those valued at cost:

At least once during each financial year non-current assets valuations should be reviewed to ascertain if there has been a material movement in fair value since the last financial year.

If there has been a material movement of fair value of the class of asset since the last financial year a revaluation is to be undertaken. This can be achieved by either engaging an independent, professionally qualified valuer or Council staff to determine the fair value of the assets. This process involves the valuer/staff physically sighting a representative sample of Council assets across the asset class and making their own assessments of the condition of the assets at the date of inspection and determining the fair value. It may be appropriate in particular circumstances to have a combination of internal and external expertise.

If there has been no material movement of fair value, indices/desktop updates as supplied by a qualified valuer/internal qualified staff may be applied for the intervening years until a full revaluation is undertaken. There must be sufficient evidence retained that the index used is robust, valid and appropriate to the asset class.

When reviewing the applicable indices Council staff may take into consideration not applying the index if it is less than a 5 percent variance (greater or lower) than the prior year. However, should Council decide not to apply an index in a financial year, when reviewing the fair value movements in the following financial year, the index will be calculated on a cumulative basis.

A full revaluation of all applicable asset classes should be undertaken at least once every three to five years. However, when an asset class has significant and volatile changes in fair value a revaluation should be undertaken annually.

The following table shows the proposed frequency of comprehensive asset revaluation by Asset Class.

Asset Class	June 25	June 26	June 27	Post June 27
Roads, Drainage and Bridge Network	**Comprehensive**	Index Review	Index Review	Every 3rd year thereafter
Airport Infrastructure	**Comprehensive**	Index Review	Index Review	Every 3rd year thereafter
Water Infrastructure	Index Review	**Comprehensive**	Index Review	Every 3rd year thereafter
Sewerage Infrastructure	Index Review	**Comprehensive**	Index Review	Every 3rd year thereafter
Land	Index Review	Index Review	**Comprehensive**	Every 3rd year thereafter
Buildings	Index Review	Index Review	**Comprehensive**	Every 3rd year thereafter
Other Infrastructure	Index Review	Index Review	**Comprehensive**	Every 3rd year thereafter

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. A class of assets may be revalued on a rolling basis provided the revaluation of the assets is completed within a short period and revaluations are kept up to date.Complex asset components are measured on the same basis as the assets to which they relate, e.g. Building asset class is valued at fair value therefore each building component is valued at fair value.

Revaluation and accumulated depreciation

When an item of property plant and equipment is revalued, accumulated depreciation is restated proportionately with the change in the carrying amount of the asset and any change in the estimate of the remaining useful life.

Revaluation increments and decrements

If the fair value of the asset class increased as a result of the revaluation, the net increment must be credited to the asset revaluation surplus for that asset class. However, when the net revaluation increase reverses a previous decrement that was recognised in the profit and loss as an expense for that asset class, the net revaluation increase must be recognised in the profit and loss as income to the extent of the previous decrement.

Net revaluation decrements for each asset class must be recognised in the profit and loss, except to the extent it reverses a previous increment for that asset class which was recognised in the asset revaluation surplus and there is a positive balance in the asset revaluation surplus to absorb the new decrement.

Increments and decrements for individual asset revaluations are offset within the relevant asset class revaluation surplus.

Asset revaluation surplus – disposal of assets

When an asset is disposed of, the amount reported in the asset revaluation surplus in respect of that asset is retained in the asset revaluation surplus and not transferred to retained surplus.

ASSET IMPAIRMENT

All non-current assets including intangible assets are to be reviewed on an annual basis for indicators of impairment by Asset custodians and management.

Where the fair value of the asset exceeds the recoverable amount it is recorded as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Where assets have been revalued at fair value there should not be any impairment loss as the recoverable amount should be equal to the fair value.

An impairment loss is recognised as an expense in the Statement of Comprehensive Income, except where the asset is at fair value. When there is an impairment loss on a revalued asset the impairment loss is offset against the asset revaluation surplus of the relevant asset class to the extent available. Any remaining loss is then expensed in the Statement of Comprehensive Income.

MATERIALITY

Materiality plays an essential part in the decision making process and preparation of the financial statements. This is because information contained or omitted from the financial statements can impair its usefulness to users.

Materiality is a concept which requires professional judgement. An omission or misstatement of an item is material if, individually or collectively, it would influence the economic decisions of users of the financial statements or the accountability of management or governing body. In assessing materiality the size and nature of the omission or misstatement are usually evaluated together. The surrounding circumstances should also be considered. As guidance in considering materiality thresholds the following can be used:

a) an amount equal to or greater than 10% of the appropriate base may be presumed to be material
b) an amount equal to or less than 5% of the appropriate base amount may be presumed to be not material
c) an amount between 5% and 10% requires judgement
d) For non-current assets an appropriate base may be:
e) Statement of Comprehensive Income, e.g. depreciation, impairment losses, revaluation surplus movements
f) Financial position – total assets, asset revaluation surplus, equity
g) Property, plant and equipment – asset class

RESIDUAL VALUES

“Residual Value” represents the amount of fair value of an asset which would not be subject to depreciation. This could occur when Council intends to dispose of the asset by way of trade-in or sale at the end of its programmed service life and this is the estimated value it is expected to return.

Residual values apply particularly to Plant and Equipment, Furniture and Office Equipment, some buildings and other structures. Because of the nature of the replacement of the assets, residual values do not apply to Roads, Water or Sewerage Infrastructures.

The determination of Residual Values is done in consultation with Council’s valuers and from its own operational experiences.

INVESTMENT PROPERTY

AASB 140 Investment property applies to non-current assets classified as investment property. Investment Property is defined as:

Property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or for both, rather than for:

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of business

An owner-occupied property is not an investment property unless the area occupied is not material in proportion to the remaining space that is leased.

For not-for-profit entities like Council, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations, the property will not meet the definition of investment property and will be accounted for under AASB 116 Property, Plant and Equipment. For example:

- Property held for strategic purposes; and
- Property held to provide a social service, including those, which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.

NON-CURRENT ASSETS ACQUIRED VIA LEASING ARRANGEMENTS

Where Council acquires a physical non-current asset via a financing lease arrangement having the characteristics outlined in the Accounting Standard AASB 16 ‘Leases’, Council will recognise both a non-current asset and a liability in accordance with that standard.

The non–current asset will be amortised over the useful life of the asset where ownership is expected to pass to Council at the end of the lease term. Where ownership is not expected to pass to Council, the non-current asset will be amortised over the term of the lease.

Assets acquired under a finance lease are subject to the same revaluation requirements as assets that are owned or otherwise controlled by the Council.

DISCLOSURE IN THE FINANCIAL STATEMENTS

If non-current assets are stated as revalued amounts, the following will be disclosed:

a) The effective date of the revaluation;
b) Whether an independent valuer was involved;
c) The methods and significant assumptions applied in estimating the item’s fair values;
d) The extent to which the item’s fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm’s length terms or were estimated using other valuation techniques; and
e) The revaluation reserve, indicating the change for the period

RELEVANT LEGISLATION

- *Local Government Act 2009 (Qld)*
- *Local Government Regulation 2012*
- *Australian Accounting Standards (AASB) and interpretations*
    - *AASB 13 – Fair Value Measurement*
    - *AASB101 – Presentation of Financial Statements*
    - *AASB116 – Property, Plant and Equipent*
    - *AASB16 – Leases*
    - *AASB136 – Impairment of Assets*
    - *AASB138 – Intangible Assets*
    - *AASB108 – Accounting Policies, Change in Accounting Estimates and Errors*

DOCUMENT CONTROL

Version	Resolution Date	Resolution No.	Policy Author
V1	12 Dec 2024	24/12/9	Finance Contractor

This Policy is to remain in force until otherwise amended/replaced by resolution of the Council.
Review Frequency: 3 yearly