# ASSET ACCOUNTING POLICY

# Version 1.0

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# 1.0 Introduction

## 1.1 BACKGROUND

In accounting for its assets the New Plymouth District Council (the Council) must comply with New Zealand government legislation. Legislation requires the Council to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP), specifically Public Benefit Entity Standards (PBE Standards) – Tier 1. Failure to do so may lead to Audit New Zealand, on behalf of the Office of the Auditor General, providing modified audit opinions, together with the ramifications of legislative non-compliance.

## 1.2 OBJECTIVES

The purpose of this policy to provide a framework that ensures the Council's assets are recognised and accounted for in accordance with NZ GAAP.

## 1.3 SCOPE

This policy applies to non-current physical assets (i.e. Property, Infrastructure, Furniture, Fittings and Equipment) owned or controlled by the Council. It applies to all staff who are involved in the management of assets, including the acquisition, construction and disposal of assets, together with all staff or contractors responsible for maintaining and reporting on assets.

The policy applies to the line items of property, plant and equipment, intangible assets and assets held-for-sale as disclosed in the Council's Statement of financial position. It is applicable when performing the following functions:

- Acquiring, constructing or developing an asset.
- Accounting for costs incurred in maintaining an asset.
- Renewing, replacing or enhancing the service potential of an asset.
- Revaluing assets.
- Disposing of assets.
- Accounting for depreciation and amortisation of assets.
- Reporting and disclosing assets.
- Establishing the useful life and residual value of assets.
- Testing assets for impairment.

## 1.4 APPLICABLE LEGISLATION

Local Government Act 2002
Local Government (Financial Reporting and Prudence) Regulation 2014

## 1.5 APPLICABLE NEW ZEALAND ACCOUNTING STANDARDS (NZ GAAP)

PBE IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*
PBE IPSAS 1: *Presentation of Financial Statements*
PBE IPSAS 17: *Property, Plant and Equipment*
PBE IPSAS 13: *Lease*
PBE IPSAS 31: *Intangible Assets*
PBE IPSAS 21: *Impairment of non-cash generating assets*
EG A7: *Tier 1 & 2: Materiality for public benefit entities*

## 1.6 SUPPORTING DOCUMENTS

The following asset accounting guidelines support this policy, providing additional explanations and examples.

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| ECM 7995795 | Asset Accounting Guideline 1: Initial acquisition |
| ECM 7996673 | Asset Accounting Guideline 2: Expenditure after acquisition |
| ECM 7996675 | Asset Accounting Guideline 3: Depreciation and amortisation |
| ECM 7996677 | Asset Accounting Guideline 4: Revaluation |
| ECM 7996679 | Asset Accounting Guideline 5: Impairment |
| ECM 7996681 | Asset Accounting Guideline 6: Derecognition |
| ECM 7996682 | Asset Accounting Guideline 7: Disclosure |

# 2.0 Policy Statements

## 2.1 ASSET CLASSES

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

### 2.1.1 Operational assets

Land
Building/improvements
Vehicles
Furniture, fittings and equipment
Puke Ariki book collection

### 2.1.2 Restricted assets

Parks and reserves
Puke Ariki museum collection
Govett-Brewster Len Lye Centre collection

### 2.1.3 Infrastructural assets

Roading
Laboratory
Waste management and minimisation
Stormwater
Flood protection
Water
Wastewater
Work in progress

## 2.2 RECOGNITION

An asset is recognised as a non-current asset if it meets all of the following criteria:

- The Council has control over the asset.
- It is probable that future economic benefits associated with the asset will flow to the Council (including non-cash service benefits).
- The cost or fair value of the asset can be measured reliably.
- The asset is expected to be used for more than one year.
- The cost or fair value exceeds the Council's $1,000 asset recognition threshold.

Refer to *Guideline 1* for further details and guidance.

## 2.3 CAPITAL EXPENDITURE AFTER INITIAL RECOGNITION

Capital expenditure on assets after initial recognition are capitalised if ONE of the following applies:

- The resulting asset provides a higher level of service (increase of service capacity or service quality), an upgrade.
- The expenditure extends the life of the asset beyond the original expectation, a renewal.

Refer to *Guideline 2* for further details and guidance.

## 2.4 ASSET VALUATION METHOD

All assets that qualify for recognition are initially measured at cost. However, where an asset is acquired through a non-exchange transaction (i.e. contributed or donated) the value is deemed to be its fair value at the date of acquisition. Fair value is either *market value* if there is market evidence or *depreciated replacement cost* if there is no market evidence.

## 2.5 DEPRECIATION OR AMORTISATION METHOD

Operating assets, except for land and restricted assets, are depreciated on a straight-line basis. Land and restricted assets are not subject to depreciation.

Refer to *Guideline 3* for further details and guidance.

## 2.6 REVIEW OF DEPRECIATION AND AMORTISATION PARAMETERS

Asset depreciation and amortisation parameters, useful lives, asset condition (used to assess remaining useful lives) and residual values must be reviewed at least every three years to ensure that they are representative of current conditions and expectations at the end of each financial year.

The remaining useful life of an asset should be reassessed whenever a major addition or any significant partial disposal occurs.

Refer to *Guideline 3* for further details and guidance.

## 2.7 ASSET REVALUATIONS

Council applies the following valuation methodology across its asset classes:

*FAIR VALUE*

Land
Buildings/improvements
Puke Ariki book collection
Parks and reserves
Puke Ariki museum collection
Govett-Brewster Len Lye Centre Collection
Roading
Waste Management and Minimisation
Stormwater
Flood protection
Water
Wastewater

*COST*

Vehicles
Furniture, fittings and equipment
Laboratory

Assets subject to revaluation are revalued to fair value, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

For all assets subject revaluation, a revaluation process is undertaken at least every three years.

For all assets other than those valued at cost, non-current asset valuations should be reviewed at least once each financial year to ascertain if there has been a material movement in fair value since the previous financial year.

An estimated movement of ten per cent or more is deemed to be material for a given asset class (as reported in the financial statements).

The Council regards Statistics New Zealand (Statistics NZ) or Business and Economic Research Limited (BERL) indices as robust, valid and appropriate for the purposes of measuring changes in fair values. External sources of data prevent internal manipulation of data and can be applied consistently across financial years.

Refer to *Guideline 4* for further details and guidance.

### 2.8 ASSET IMPAIRMENT

All assets on the fixed asset register are to be reviewed annually for impairment. This review may be in the form of discussions with key personnel in regards to the condition and significant adverse events relating to assets under their supervision. There is no expectation that each asset will be reviewed individually, as this would not be feasible for many assets such as those located underground.

Refer to *Guideline 5* for further details and guidance.

### 2.9 ASSET DERECOGNITION

A non-current asset should be derecognised from the fixed asset register whenever it is:

- Destroyed, abandoned or decommissioned with no future economic benefit or service potential expected to be generated from its use.
- Scrapped, sold or traded.
- Lost or stolen.
- Transferred to another entity and there is a change of control.

Refer to *Guideline 5* for further details and guidance.

### 2.10 WORK IN PROGRESS

Work in progress (WIP) represents the accumulated costs of constructed assets (e.g. costs associated with extending a stormwater pipeline or roadway).

WIP balances are to be reviewed at least quarterly to ensure that balances reconcile to the general ledger.

### 2.11 MATERIALITY

Materiality plays an essential part in the decision making process and preparation of the Council's financial statements. This is because information contained or omitted can impair its useful 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 for the accountability of management or governing body.

When making judgements about whether items of information are material and should therefore be presented and disclosed, consider the following:

- Who the users of the financial reports are and what their information needs are.
- How the qualitative characteristics affect presentation and disclosure.
- How the nature and size of items of information, judged in the surrounding circumstances, affect presentation and disclosure.
- Where financial and non-financial information that is material should be presented and disclosed.

Size is usually considered on a relative basis. If the item is large relative to other items and significant in terms of its effect on the users' evaluation of the Council's performance or position, then it is likely that it is material and should be separately presented or disclosed.

If the nature of an items is important to accountability assessments or decision making then its disclosure is likely to be material. A financial or non-financial items can be material based on its nature, irrespective of its size.

Consideration of qualitative characteristics should include: relevance; faithful representation; clear understanding; timeliness; comparability; and verifiability.

As guidance in considering materiality thresholds the following can be used:

- An amount equal or greater than ten per cent of the appropriate base may be presumed to be material.
- An amount equal to or not less than five per cent of the appropriate base amount may be presumed to be not material.
- An amount between five per cent and ten per cent requires judgement.

### 2.12 POLICY REVIEW

The policy is to be formally reviewed on a triennial basis.

# 3.0 DEFINITIONS

**Amortisation** - The systematic allocation of the depreciable amount of an intangible asset over its useful life.

**Asset** - Resource controlled by the Council as a result of past events and from which future economic benefits or service potential are expected to flow to the Council.

**Asset class** – Grouping of a similar nature and the lowest level of information on non-current assets included within the Council's Financial Statements.

**Asset recognition** – Process to include a non-current asset in the asset register.

**Asset renewal** – Capital works that reinstate some or all of the original service potential of an asset.

**Capital expenditure** – Costs incurred over the life of an asset that either renew, extend or upgrade the asset's underlying service potential.

**Carrying amount of an asset** – The amount at which an asset is recognised in the Statement of financial position, after deducing any accumulated depreciation and accumulated impairment losses

**Cost** – 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.

**Council** – New Plymouth District Council.

**Depreciable amount** – The cost of an asset, or other amount substituted for cost, less its residual value.

**Depreciation** – The systematic allocation of the depreciable amount of an asset over its useful life.

**Economic life** - Either:

- The period over which an asset is expected to yield economic benefits or service potential to one or more users or;
- The number of production or similar units expected to be obtained from the asset by one or more users.

**Entity-specific value** – The present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or the value it expects to incur when settling a liability.

**Fair value** – Equates to market value, if a readily available market exists, or depreciated current replacement cost where no market exists.

**Financial year** – 1 July to 30 June

**Fixed Asset Register** – Repository of financially recognised non-current assets and related information used for both operational and financial accounting purposes.

**Full revaluation** – The process whereby the fair value of all assets within an asset class are updated to reflect current market value or current replacement cost as well as reassessing remaining useful life and residual value.

**Future economic benefits** – In respect to not-for-profit entities such as the Council, future economic benefits refer to the ability of an asset to provide goods or services in accordance with the Council's objectives.

**Gross carrying amount (or Gross Value)** – The amount at which an asset is recorded (either at cost or fair value) within the fixed asset register, excluding any deduction for accumulated depreciation or accumulated impairment losses.

**Highest and best use** – The use of an asset by market participants that would maximise its market value.

**Intangible asset** – An identifiable non-monetary asset without physical substance.

**Interim revaluation –** Desktop review of unit rates whereby all asset values within an asset class are adjusted by an indexation factor.

**Impairment –** Decrease in service potential of an asset as a consequence of an irregular event or catastrophe, resulting in its recoverable amount being less than its carrying amount.

**Infrastructure assets –** Typically large, interconnected networks or programs of composite assets. The components of these assets may be separately maintained, renewed, replaced or disposed of, so that the required level and standard of service from the network of assets is continuously sustained. Generally, the components and the assets have long lives, they are fixed in place and rarely have any market value.

**Maintenance expenditure** – Recurrent planned and unplanned expenditure, which is periodically or regularly required as part of Council’s maintenance plan to ensure that the asset is kept in an operational state, achieves its useful life and provides the required level of service.

**Market value** – The price that would be received to sell an asset in an orderly transaction between market participants, excluding transaction costs but inclusive of any transport costs.

**Net Book Value** – The amount at which an asset is recorded (either at cost or fair value) within the fixed asset register after deducting any accumulated depreciation and accumulated impairment losses. This is the same as an asset’s carrying amount or written down value.

**Nominal cost** – Nil or minimal cost for which an asset has been acquired.

**Non-current asset** – An asset held by Council for use rather than exchange and which provides an economic benefit for a period greater than one year.

**Operating expenditure** – Encompasses all costs associated with operating an asset (i.e. electricity, fuel, personnel costs, plant and equipment on costs and internal recharges).

**Probable** – More likely than not to occur.

**Recognition threshold** – The acquisition value an asset should exceed before it is recognised in the fixed asset register and the Council accounts.

**Recoverable amount** – The higher of an asset’s fair value less cost to sell and its value in use.

**Remaining useful life** –The remaining operational life of an asset in service, irrespective of the period an asset has been in use or its design life or initial useful life when first recognised.

**Renewal works (or asset renewal)** – Capital works that reinstates some or all of the original service potential of an asset

**Replacement cost** – The current cost to replace or reproduce an asset based on similar operating conditions.

**Residual value (salvage value or scrap value)** - The estimated amount that would be obtained today from the disposal of an asset, after deducting the estimated costs of disposal (where applicable), if the asset were already of the age and in the condition expected at the end of its useful life.

**Sunk costs** – Costs that are incurred on the initial construction of an asset that are unlikely to be incurred again when the asset is renewed or replaced.

**Service potential** – The capacity to provide goods and services in accordance with Council's objectives.

**Useful life** – The period of time an asset is intended to be used, which is estimated when the asset is initially put into service.

**Valuation unit rates** – Asset unit rates are based on replacement cost principles that exclude specific asset management costs to fully comply with accounting standards and to avoid the potential for double counting of costs.

**Value in use** – Normally refers to assets that generate some form of cash inflow. Where assets have no cash inflow, value in use is deemed to be depreciated current replacement cost.

**Vested asset** – An asset that is acquired by Council at nominal or no cost, usually by way of an agreement with property developers, through government arrangements or a bequeath.

**Written down value** – The amount at which an asset is recorded (either at cost or fair value) within the fixed asset register after deducting any accumulated depreciation and accumulated impairment losses. This is the same as an asset's carrying amount or net book value.