ASSET ACCOUNTING POLICY

GUIDELINE 1: INITIAL ACQUISITION

Version 1.0

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1.0 PURPOSE

This guideline is intended to support the Asset Accounting Policy. It provides additional explanations on how to account for non-current assets (assets) on initial recognition into the fixed asset register.

2.0 TYPES OF ASSET ACQUISITION

The following circumstances can result in an asset being acquired:

- Acquisition involving consideration, such as purchased or constructed/developed assets.
- Acquisition at no cost or for nominal consideration, such as donated or vested assets.
- Assets not previously recognised but subsequently identified through revaluation, stocktakes or other verification processes. These assets may have been originally purchased, constructed, donated or vested.

3.0 ASSET RECOGNITION CRITERIA

An asset is recognised as a non-current asset in the fixed asset register 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 item 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.

3.1 Council has control over the asset

The Council controls an asset if it has the power to obtain benefits flowing from the resource or to restrict the access of others to those benefits. Legal ownership is not mandatory for control to exist.

The following questions may provide assistance in circumstances where it is not easy to determine if control exists:

- Does the Council have the ability to use the asset to achieve its objectives?
- Does the Council have the ability to restrict or charge access to the asset?
- Does the Council have the authority to decide how the assets will be used?
- Is the Council responsible for managing the asset's wear and tear?
- Does the Council bear the risks associated with holding the asset?

Control over donated or vested assets*:* the Council takes ownership of donated/vested land and buildings when it receives title to the property. For assets such as donated plant or equipment, control occurs when the item is formally handed over to the Council.

3.2 It is probable that future economic benefits associated with the asset will flow to the Council (including non-cash service benefits)

The term future economic benefits refers not only to the potential of an asset to contribute to cash flows, but to the potential of the asset to contribute to the ability to provided goods or services in accordance with the Council's objectives. Benefits can arise from:

- Use of the asset
- Cash inflow
- Revenue from future sale
- Provision of goods and services.

A benefit is deemed to be probable if it is more likely than not to occur. For the majority of assets, particularly infrastructure assets, future economic benefits relate to the service potential inherent in the assets. For such assets, both terms (service potential and future cash flows) can be used interchangeably.

3.3 The cost or fair value of the item can be measured reliably

All assets that qualify for recognition are initially measured at cost. However, where an asset is acquired at no cost, such as vested/donated assets or for nominal consideration, the cost is deemed to be its fair value at the date of acquisition. Fair value is obtained via either **market value** if there is a readily available market or **depreciated current replacement cost** if there is no readily available market.

If an asset cannot be reliably measured it should not be recognised in the fixed asset register.

3.3.1 Elements of cost

The value of assets initially recognised at cost should include:

- Purchase price, including duties and taxes (excluding GST), after deducting discounts and rebates.
- Any other costs directly attributable to bringing the asset to its location and condition necessary for it to be capable of operating in the manner intended.

Examples of *directly attributable costs* include:

- contract costs for construction or development of an asset
- project management costs
- sign costs
- installation and assembly costs
- labour costs for employees directly involved in the construction, development or acquisition of an assets, including any attributable labour on-costs
- site preparation costs
- initial delivery and handling costs
- asset commissioning costs
- tender costs
- costs for relocating or reinstating existing assets controlled by the Council where they are material in value and the asset being relocated is replaced, upgraded or subject to major renewal works as part of the relocation and reinstatement process
- Directly attributable real estate fees, legal costs and associated professional fees.

Costs *not directly attributable* to the cost of an asset, which should be treated as operating expenditure, include costs associated with:

- Feasibility studies, research studies, master plans, concept plans and investigations up to the point when the Council formally decides that a capital project will be undertaken.
- Opening a new facility.
- Operating an existing asset.
- Decommissioning an existing asset when it is removed from service.
- Introducing a new product or service, including advertising and publicity.
- Periodic software maintenance and licence agreement charges.
- Relocating or reinstating existing assets controlled by the Council where they are not material in value or the asset being relocated is not being replaced, upgraded or subject to major renewal works as part of the relocation and reinstatement process.
- Relocating existing assets controlled by a third party, temporary or permanent.
- Reinstatement of assets not controlled by the Council, for example, reinstating the surface and pavement of NZTA controlled roads as part of storm water works.
- Inspection costs where no physical upgrade, refurbishment or replacement of an asset is undertaken, including any outlay associated with the assessment of asset condition.
- The mark-up portion of internal costs.
- Any wastage and unproductive downtime.
- General administration and overhead costs.

In some instances the capitalised cost of an asset should include an initial estimate of the cost of dismantling and removing the asset and restoring the site on which it is located. These costs should only be capitalised when:

- They can be reliably estimated.
- They are material in amount or nature.
- A clear obligation exists (predominantly through a legislative or environmental obligation) at the time an asset is first put into use.

3.3.2 Market value

Assets acquired at no cost or for nominal consideration are recognised in the fixed asset register at the market value at acquisition date, whenever a readily available market for the asset exists.

Preference is to be given to assessing market value in an active market for identical assets that the Council can access at acquisition date (i.e. Level 1 fair value per NZ GAAP). Identical markets would only apply to as-new items of plant or equipment contributed or donated to the Council.

Other asset types with a market value commonly contributed or donated include land, buildings and second hand plant or equipment. Such assets would be valued with reference to other observable inputs, such as second hand markets for similar/identical assets or real estate markets. These valuations are considered to be Level 2 fair values per NZ GAAP.

Level 2 fair values should also take into account the condition and location of the asset acquired and the asset's highest and best use.

A market value should be obtained for assets in similar condition to the asset acquired. Depending on its physical location, an adjustment may be required for transportation costs.

Any other type of transaction cost such as real estate or legal fees are specifically excluded as being part of market value.

Highest and best use is considered a use that is:

- Physically possible and takes into account the asset's physical characteristics such as size and capacity as well as any physical impediments due to location.
- Legally permissible and includes zoning regulations applicable to a property and any other legally enforceable restriction.
- Financially feasible and takes into account the economic realities of upgrading or converting an asset to achieve a better usage.

The important point to note is that highest and best use (and hence market value of the asset) is from the perspective of market participants, which can differ from how the Council is using or intends to use the asset.

3.3.3 Depreciated current replacement cost

Where assets are acquired at no cost or for nominal consideration and a market value cannot be reliably obtained, the assets are recognised in the fixed asset register at depreciated current replacement cost. Depreciated current replacement cost of an asset is the current replacement or reproduction cost less any accumulated depreciation.

The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period.

Current replacement or reproduction cost of an asset is the minimum that it would cost in the normal course of business to replace an existing asset with a technologically modern equivalent (as opposed to a second hand asset) that provides commensurate economic benefits. Reliable sources of information for determining current replacement cost are:

- Appropriately qualified and knowledgeable expert valuers.
- By reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. Costs incurred by the Council in the acquisition/construction of similar assets.
- Expected costs of materials, services and labour sourced from appropriate suppliers and applied by appropriately qualified staff.

Valuations undertaken via these methods are deemed Level 3 fair values under the provisions of NZ GAAP. For such valuations, any sunk costs incurred in the construction of a brand new asset are excluded from the determination of current replacement or reproduction cost.

Unit rates underlying current replacement cost reflect a 'valuation' methodology, whereby components included for financial accounting purposes comply with financial accounting principles and avoid the potential for double counting. This can necessitate exclusion of some components required for project costing and asset management purposes.

Examples may include demolition and disposal costs, relocation and reinstatement costs or traffic control for some asset types.

3.4 Asset recognition threshold

To avoid insignificant assets being recognised in the fixed asset register, a $1,000 recognition threshold applies. Asset acquisition/construction costs that fall below the threshold should be expensed. Similarly, any contributed or donated asset valued below the threshold on acquisition should not be financially recognised.

For infrastructure assets comprised of major components the threshold applies to the aggregate asset value (i.e. the financial asset as a whole) and not to individual asset components.

4.0 ASSETS HELD FOR SALE

Items are to be classified as 'Held for sale' in the current assets section of the Statement of financial position in situations where they are acquired for the purpose of resale. The item must be immediately available for resale in its present condition and the sale must be highly probable. Indicators include:

- The Council has adopted a commitment to a sale plan.
- Actively undertaking marketing of the asset at a price commensurate with its fair value.
- Sale is expected to occur within 12 months of the asset being classified as 'Held for sale'. The classification period can be extended where Council demonstrates that it remains committed to the sale and the sale has not occurred due to circumstances beyond the Council's control.
- That it is unlikely the Council's commitment to sell the asset will change significantly or will be withdrawn.

In circumstances where an item has been acquired for the purpose of continuing operations but subsequently meets the above criteria, then it should be reclassified as 'Held for sale'.

Items that are classified as 'Held for sale' are to be assessed on an annual basis. If circumstances change resulting in the above conditions no longer being met, the asset must be reclassified as non-current and included within the relevant asset class of Property, Plant and Equipment.

5.0 GUIDELINE REVIEW

The guideline is to be formally reviewed on a triennial basis in conjunction with Asset Accounting Policy review.

APPENDIX A: CAPEX VS OPEX EXPENDITURE

This appendix provides examples of typical capitalised and expensed items for each financial asset class recognised in the Council's financial statements. Where it does not specifically provide for the classification of certain types of expenditure, its treatment as either capital or expense should be discussed with your business performance partner. The ultimate decision on whether to capitalise or expense will be based on interpretation of New Zealand accounting standards and relevant legislation.

Capitalised (CAPEX)	Expensed (OPEX)
ALL ASSET CLASSES	
• Replacement/refurbishment of assets	• Administration costs associated with recognition of contributed assets • Cleaning • Costs associated with relocating assets (permanent or temporary) either controlled or not controlled by Council • Decorative painting • Demolition and decommissioning • Disposal costs • Drain cleaning • Inspections/condition assessments not requiring dismantling of asset • Master planning and related studies. • Relocation costs • Repairs and maintenance • Revegetation • Sand dredging • Sand replenishment • Scrub clearing • Soft landscaping • Surface patching • Sweeping • Turf not of a specialised nature
BUILDINGS	
• In rare cases, major repainting of external walls, which reseals and waterproofs the external structure • Electrical equipment hardwired into the building (e.g. sound system)	• Repainting internal walls • Shifting existing walls within the building
PATHWAYS	
• Pathways and boardwalks constructed from concrete, bitumen, wood or synthetic materials	• Grassed or gravel pathways

Capitalised (CAPEX)	Expensed (OPEX)
LAND	
• All land excluding properties meeting non-financial criteria • Associated legal and real estate costs	• Legal costs where purchase did not eventuate • Easements (right of access)
ROADS, BRIDGES AND MAJOR CULVERTS	
ROAD SURFACE, PAVEMENTS AND EARTHWORKS	
• Roads constructed with a pavement and seal • Earthworks (formation costs) • Reinstatement costs (where road excavated in order to repair an underground asset)	• Dirt or gravel roads • Re-marking of lines
ROADS INVENTORY	
• Constructed and installed items of roads inventory	• Minor signage • Grass median infills
BRIDGES	
• Bridge assets	• Re-marking of lines
FLOOD MITIGATION AND DRAINAGE	
• Constructed flood mitigation and drainage assets	
WATER AND SEWERAGE INFRASTRUCTURE	
• Constructed water and sewerage infrastructure assets • Reinstatement costs of road surface and pavement not controlled by Council following excavation required to access Council's underground assets	
INTANGIBLE ASSETS	
• Testing, development and implementation costs associated with purchased software. • Additional concurrent user licences for installed software	• Report development • Annual software and licence agreement charges • Ongoing staff training • General administration costs • Decommissioning costs