

Asset Accounting Policy: Depreciation and Impairment

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Strategic Pillar	Corporate Services
Responsible Branch	Finance

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1 OUTCOMES

- 1.1 This objective of this policy is to spread capital expenditure over the life of the asset through the mechanism of depreciation so that intergenerational equity is maintained.
- 1.2 Consistent asset accounting policy provides fairness and comparability in determining the cost of service provision, recovered from ratepayers across financial years.
- 1.3 Efficient asset management decisions are based on reliable information, ultimately resulting in lower costs for the provision of community infrastructure.

2 POLICY

- 2.1 Council will follow a standardised approach when accounting for IPPE. The accounting treatment will comply with Australian Accounting Standards and relevant legislation.
- 2.2 Asset useful lives are determined based on a sound technical basis, using industry accepted engineering standards and evidence of asset performance.
- 2.3 Asset useful lives are varied from engineering principles, where there is reasonable and demonstrable evidence to justify the variance.

3 SCOPE OF THE POLICY

- 3.1 This policy applies to the accounting treatment for non-current infrastructure, property, plant and equipment (IPPE). Other assets such as receivables, inventory, intangibles and cash are excluded.

4 DEFINITIONS

- 4.1 Depreciable amount — The cost of an asset, or other amount substituted for cost, less its residual value.
- 4.2 Depreciation — The systematic allocation of the depreciable amount of an asset over its useful life.
- 4.3 Impairment — The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.
- 4.4 Useful life — The period over which an asset is expected to be available for use by Council; or the number of production or similar units expected to be obtained from the asset by Council.

5 LEGISLATIVE OBLIGATIONS AND/OR RELEVANT STANDARDS

- 5.1 AASB 116 Property, Plant and Equipment
- 5.2 AASB 136 Impairment of Assets
- 5.3 OLG Code of Accounting Practice and Financial Reporting
- 5.4 IPWEA Australian Infrastructure Financial Management Guidelines
- 5.5 IPWEA Position Statement: Determining Useful Lives of Infrastructure Assets

6 CONTENT

6.1 Depreciation

- 6.1.1 Council depreciates assets using the straight-line method to reflect the consumption of the asset of its useful life.

- 6.1.2 Assets will be componentised where different useful lives relate to each component of an asset. Each component will be depreciated separately.
- 6.1.3 Asset useful lives are reviewed annually and varied from the base to reflect the most recent assessment of the asset's useful life, where there is sound evidence to justify the change.
- 6.1.4 Useful lives for the various asset classes are detailed in the table at Appendix A.

6.2 Fair Value Adjustments

- 6.2.1 Revaluations shall be performed regularly to ensure that the carrying amount of the asset does not differ materially from its fair value at reporting date. Where an asset is revalued, accumulated depreciation is restated in proportion to the gross carrying amount of the asset.
- 6.3 When a partial asset is replaced, the remaining useful life of the renewed asset is reviewed to recognise the restored economic benefits.

6.4 Impairment

- 6.4.1 The Australian Accounting Standards require that Council assess at each reporting date whether there is any indication that any assets under its control may be impaired. If any such indication exists, the Council shall estimate the recoverable amount of the asset.
- 6.4.2 Where Council assets are not held primarily for the ability to generate net cash inflows but rather they are held for the use of their service capacity and held at fair value at the reporting date then the recoverable amount is expected to be materially the same as fair value and therefore no impairment testing is required to be performed (AASB 136 Aus 5.1)
- 6.4.3 Impairment loss on a revalued asset must be first offset against any revaluation surplus for the same class of asset.
- 6.4.4 Following the recognition of an impairment, the remaining useful life is re-estimated and the future depreciation will be adjusted to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.
- 6.4.5 An asset which is not to be replaced and is not in use is derecognised and the carrying value less residual value written off.

6.5 Assets Damaged due to natural disasters or other events

- 6.5.1 Council will identify whether any assets have been damaged as a result of natural disaster.
- 6.5.2 If assets are no longer useable they will be written down to recoverable amount or derecognised through the profit and loss statement.
- 6.5.3 If part of an asset is damaged and the damaged part is practically separable, for example if the road surface is destroyed and can be separately identified in the asset register, it will be written off as for paragraph 6.5.2. The cost of replacing the damaged part will be capitalised when it occurs.
- 6.5.4 If the assets are partly damaged and can be repaired or utilised in the future, the assets will be reviewed for impairment in accordance with paragraph 6.4 and the repair expenditure will be treated as an expense.

7 REVIEW

- 7.1 This policy will be reviewed every 2 years or earlier as necessary if:
 - a) legislation requires it, or
 - b) Council's functions, structure or activities change

Appendix A

Asset Component	Range of Lives Applicable to	Default Useful Life
Building Superstructure (Frame, roof, walls, cladding)	60 - 200	100
Building Fit-Out (Internal fix partition, ceiling, floor coverings)	20 - 40	30
Mechanical Services (HVAC, lifts, ducting, pumps, filters)	15 - 50	25
Electrical Services (Lighting, communication, controls, security switchboards)	15 - 50	25
Hydraulic Services (water, sanitary, drainage, fire)	15 - 50	25
Surface (Road and carpark surfaces)	12 - 20	15
Pavement (Road and Carpark base layer)	60 - 80	80
Sub-base/Foundation (Bulk earthworks)	Non-Depreciable	
Kerb & Gutter (Road and Carparks)	80 - 120	100
Furniture (Street, park and/or office furniture)	5 - 15	10
Structures (Structures not deemed to be buildings)	15 - 50	25
Footpath (pedestrian, shared, cycle)	50 - 100	100
Barriers (fences, safety barriers, noise walls)	15 - 50	25
Retaining Walls (Above regulated height)	15 - 50	25
Traffic Management Devices (roundabout, chicanes, speed humps)	15 - 50	25
Bridge (Vehicle, pedestrian, cycle)	100 - 200	100
Major Culvert	100 - 200	100
Causeway	100 - 200	100
Minor Culvert (Greater than 450dia but less than Major Culvert)	100 - 200	100
Playground (Equipment, Softfall, edging)	15 - 30	20
Irrigation System (sprinkler, pipework, controllers)	15 - 30	20
Landscaping (trees, garden beds, turfed areas, bulk earthwork)	Non-Depreciable	
Pipe (water, sewer, stormwater)	100 - 200	100
SQID (Storm Quality Interception Device)	100 - 200	100
Earthen Cells (Landfill)	Non-Depreciable	
Fleet vehicles (light vehicles and handheld tools)	3 - 7	7
Heavy Plant (Trucks and construction equipment)	5 - 20	10
ITC Equipment (Computers, servers, phones, tablets, software)	3 - 5	5
Land (Operational, crown, community, land under road)	Non-Depreciable	