
Asset Materiality Policy

CONTROL:

Policy Type:	Asset Materiality Policy
Authorised by:	Council
Head of Power:	AASB 1031 Australian Accounting Standard; AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
Responsible Officer:	Deputy Chief Executive Officer
Adopted / Approved:	February 18 2019;Minute No. 2019.02.18-OM-6
Last Reviewed:	February 2019
Review:	Prior to any Asset Revaluation Procurement
Version:	Version 3

1. INTRODUCTION

1.1 PURPOSE:

This document will provide definitive guidance to Council staff, Asset Valuer's and External Auditors with regards to establishing clear and measureable guidelines for the requirement for the revaluation of assets within Diamantina Shire Council.

1.2 POLICY OBJECTIVES:

To establish guidelines for the frequency and related triggers for asset revaluation within Diamantina Shire Council.

1.3 COMMENCEMENT OF POLICY:

This Policy will commence on adoption. It replaces all other specific policies of Council (whether written or not).

2. POLICY

2.1 CONTEXT:

The policy will cover the frequency and identify the related triggers for undertaking asset revaluations for Council assets.

2.2 POLICY STATEMENT:

Diamantina Shire Council owns/controls a large amount of assets. This policy will assist in determining the frequency of which these assets are valued taking into account specific circumstances that prevail within Diamantina Shire Council.

2.3 SCOPE:

The scope of this policy is all assets owned and maintained by Diamantina Shire Council which include Land, Buildings, Roads, Water Infrastructure, Sewerage Infrastructure and Other.

Asset Materiality Policy

3. STANDARDS AND PROCEDURES

The concept of materiality is an overriding concept which governs not only the preparation and presentation of financial statements, but also the applicability of statements of accounting standards.

AASB 1031 is the Australian Accounting Standard relating to materiality.

Guidelines which attempt to establish quantitative thresholds for determining the materiality of an item must be drawn at arbitrary levels. The below guidance is to be used when determining materiality and related frequency of desktop and full revaluations.

Council considers the following benchmarks in considering materiality according to AASB 1031 and AASB 108 for the specific asset classes:

Land:

Land fair values at 30 June 2018 are as determined by independent valuers AssetVal effective 30th June 2014, with subsequent acquisitions at cost. Level 2 & 3 valuation inputs were used to value land in freehold title as well as land used for special purposes, which is restricted in use under current zoning rules. Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre as market evidence is limited.

No index was applied for the year ended 30 June 2018 as market evidence remains lacking. A comprehensive valuation by an independent valuer will be undertaken during the 2018/19 financial year.

Frequency for Desktop Revaluation: Desktop revaluation on an annual basis linked to the DNRM land valuations, if none provided assume as 0%.

Frequency for Full Revaluation: Minimum every 5 years or based on evidence to the contrary such as a significant external trigger (e.g. large scale/ rapid development of a new industry).

Buildings:

Within Diamantina Shire Council there are very few instances of the sale of buildings and land. The very weak real estate market is due to a very low demand. Given the low demand it is reasonable to conclude that the value of the buildings and land will vary little over time and remain somewhat static. An annual Indices Assessment of price movements will be obtained from a Certified Practising Valuer.

Frequency for Full Revaluation: Minimum every 5 years, or upon a 5% increase in the relevant Producer Price Index or based on evidence to the contrary such as a significant external trigger (e.g. large scale/ rapid development of a new industry).

Water and Sewerage:

The water and sewerage infrastructure located in Bedourie and Birdsville is currently assessed to be in generally good condition and relatively modern. The soil type in both towns is stable and not susceptible to movement that may damage the underground assets. Very little new water or sewer infrastructure is constructed as the demand for both remains stable.

Frequency for Full Revaluation: Minimum every 5 years, or upon a 5% increase in the relevant Producer Price Index or based on evidence to the contrary such as a significant external trigger (e.g. large scale/ rapid development of a new industry).

Roads:

The majority of the road network within Diamantina Shire consists of unsealed gravel roads. The condition of these roads can vary greatly from day to day due to a combination of seasonal weather variations and heavy vehicle traffic. In addition to normal usage and weather patterns Diamantina Shire's road network is regularly subject to damage due to flooding. (Approximately 50% of the road network is located within

Asset Materiality Policy

flood plain areas according to the Queensland Reconstruction Authority Flood Assessment Overlay). In addition, in an average year Diamantina Shire experiences one flood event in either the Georgina/Eyre Creek or the Diamantina River Catchments. This situation results in ongoing flood damage repairs over the network. These repairs are generally undertaken by a combination of local contractors and council staff and plant on a rolling basis.

Frequency for Full Revaluation: Minimum every 5 years, or upon a 5% increase in the relevant Producer Price Index or based on evidence to the contrary such as a significant external trigger (e.g. large scale/ rapid development of a new industry).

Other Structures:

The majority of the assets in 'Other Structures' are the airport runways in Bedourie, Birdsville and Betoota. These are constructed and maintained using similar techniques and resources to the road asset class. For this reason the valuation frequency is the same as the 'Roads' asset class.

Frequency for Full Revaluation: Minimum every 5 years, or upon a 5% increase in the relevant Producer Price Index or based on evidence to the contrary such as a significant external trigger (large scale/ rapid development of a new industry).

Accounting Treatment for Flood Damage on Road Assets

Expenditure due to unexpected damage can be either maintenance or capital depending on the extent and type of damage. Damage can be a result of a variety of external influences, most of which will cause minimal damage and result in maintenance expenditure to ensure the useful life of the asset is realised. The major cause of damage to transport assets is prolonged or repetitive inundation caused by cyclonic, flooding and monsoonal rainfall events. The majority of damage caused by declared events is repaired using Natural Disaster Relief and Recovery Arrangements (NDRRA) funding as a combination of operational and capital expenditure.

Affected assets are inspected after each event to establish the extent of damage. Whilst the majority of damage is evident immediately after the event, damage to sealed roads due to saturation of subgrade and pavement material can become evident sometime after the event. Subsequent inspections are therefore required to ensure all damage is recorded.

- If the damage is extensive rendering the asset unusable and requires immediate reconstruction, the relevant components of the asset will be completely written off at the time of the initial inspection after the event. Replacement works will be carried out in the immediate future and all expenditure will be **capitalised**.
- Unsealed roads are repaired by the reinstatement of the granular layer to the depth prior to the event. This is considered maintenance and will be recorded as **operational expenditure** similar to any re-sheeting projects carried out by Council during normal gravel road maintenance. A change in condition is recorded in the asset register at the time of the inspection. Restoration works are carried out as required depending on the extent of damage and road function. The asset is reconditioned at completion of works.
- Repairs/reinstatement of sealed road components vary from minor dig-outs, insitu-stabilisation of short or partial width sections of roads to full reconstruction of road segments including subgrade, pavement and seal to current engineering standards.
 - Damage to sealed roads which has not impaired the functionality or capacity of the road, but requires minor repairs which do not extend the economic life of the asset is addressed as follows:
 - Reconstruction or in-situ stabilisation of a partial width of a road segment or a minor full-width length of a road (<40m) will be recorded as an **operational expense**. A change in condition is recorded in the asset register at the time of the inspection. Restoration works

Asset Materiality Policy

- are carried out as required depending on extent of damage and road function. The asset is reconditioned at completion of works.
- Replacement of road components to reinstate the capacity or function of the road or a full-width section of road more than 40m in length will extend the life of the asset and therefore considered as a **capital expense**. The remaining useful lives of all components are to be reduced with the corresponding reduction in value written off at the time of inspection. A further write-off will occur at the time of reconstruction if required. All works will be capitalised.

The vast majority of the Diamantina shire road network is unsealed gravel roads so the majority of the flood damage repairs are expected to be operational expenditure. Figure 1 below provides some examples.

Asset Materiality Policy

<i>Type of Damage</i>	<i>Cause of damage</i>	<i>Extent of Damage</i>	<i>Affect on service potential</i>	<i>Type of Restoration required</i>	<i>Capital/Maintenance</i>	<i>Accounting treatment of asset and expenditure</i>
Stripping of surfacing material (Sealed Road)	Overtopping of road with stormwater at high velocity	Damage affected <40% of the segment area	Condition and Functionality reduced.	Replacement of seal (Asphalt or Chip Seal)	Maintenance	Change in condition recorded in asset register at time of inspection. Change back to new condition after restoration
Stripping of surfacing material (Sealed Road)	Overtopping of road with stormwater at high velocity	Damage affected >40% of the segment area		Replacement of seal (Asphalt or Chip Seal)	Capital	Write-off asset completely at time of inspection.
Stripping of pavement material (Unsealed Road)	Overtopping of road with stormwater at high velocity	All damage		Gravel re-sheeting	Maintenance	Change in condition recorded in asset register at time of inspection. Change back to new condition after restoration
Stripping of pavement material (Sealed Road)	Overtopping of road with stormwater at high velocity	Pavement damaged for full width of road for a length of <40m	Reduced service potential on minor section of road segment	Repair road pavement and seal	Maintenance	Change in condition recorded in asset register at time of inspection. Change back to new condition after restoration
Stripping of pavement material (Sealed Road)	Overtopping of road with stormwater at high velocity	Pavement damaged for full width of road for a length of >40m	Severe reduction in service potential. If road is unpassable it needs to be closed to traffic for safety reasons.	Replacement or insitu stabilisation of existing pavement and seal, including rework or remedial treatment of subgrade if required	Capital	Write-off asset completely at time of inspection.

Figure 1.

Asset Materiality Policy

4. REFERENCE AND SUPPORTING INFORMATION

4.1 DEFINITIONS:

To assist in interpretation, the following definitions shall apply:

Word / Term	Definition
Council	means Diamantina Shire Council.

4.2 RELATED POLICIES, LEGISLATION AND DOCUMENTS:

Links to supporting documentation

4.3 VERSION CONTROL:

Previous Version Number	Adopted/Approved Date
Version 1	October 10 2016;Minute No. 2016.10.10-OM-5
Version 2	June 25 2018; Minute No. 2018.06.25-OM-6