FACTSHEET

Depreciation of Council assets

What is depreciation?

Depreciation is a financial term, used to describe the reduction in the dollar value of any physical asset that Council owns over time – such as buildings, water pipes and vehicles – due to wear and tear, usage or impacts from assets naturally aging.

Accounting for depreciation is a requirement under Australian Accounting Standards.

Why does depreciation matter?

Depreciation plays a vital role in good financial management.

By accounting for the gradual decline of an asset, Council can maintain accurate and accountable financial records of asset value to the organisation, ensuring transparency to the community at all times.

This also assists with the maintenance and repair program of works, and supports informed decision making for timely asset replacement, ensuring value for money for our ratepayers.

How is depreciation measured?

Methods of calculating depreciation include:

- **Straight-line depreciation** – spreading the cost evenly over the asset's lifespan.
- **Declining balance depreciation** – applying a higher expense in the early years, reducing over time.
- **Units of production depreciation** – basing depreciation on the asset's actual usage rather than time.

Council applies the **straight-line depreciation method**, determining the annual depreciation expense by dividing the replacement cost by the asset's useful life.

What depreciable assets does Council own?

Council owns a diverse range of assets including plant, equipment, buildings, water and sewer networks, stormwater infrastructure, cultural and community assets, and transport infrastructure.

Criteria for an asset to be depreciated:

- Council must be certain the asset will generate future economic benefits.
- Council must own or have control over the asset.
- The asset must last for more than one year.
- The asset's cost must be able to be reliably measured.
- The asset must be completed (not a work in progress).
- The asset's value must exceed a pre-established threshold, which varies by asset class.

Constructed assets include **roads, bridges, sewerage, wastewater systems and public facilities** such as parks and recreational centres.

Council also receives **donated items such as artwork or historical artifacts, as well as community-funded amenities**, including playground equipment or memorials.

Council recognises **assets contributed in lieu of infrastructure charges**, including utility installations, footpaths, or street lighting provided by developers as part of urban development projects.

How does Council manage depreciation?

Council reports on its depreciation monthly in our financial reports and conducts asset revaluations on all asset classes on a regular basis in accordance with Australian Accounting Standards.

These assessments may lead to adjustments in:

- The value of the asset, reflecting asset condition and current market conditions.
- The remaining useful life, ensuring depreciation aligns with the asset's actual lifespan.

This process helps Council better estimate replacement costs and plan accordingly – ensuring adequate funding is available when assets reach end of life and need to be replaced.

Depreciation is a non-cash expense that doesn't directly affect cash out-flow in the year the depreciation expense is recognised, but significantly impacts Council's operating surplus/deficit and net result. As a result, it influences Council's overall financial health.

When does depreciation end?

Depreciation stops when one of the following occurs:

- The asset is sold or disposed of – once ownership transfers or asset is disposed of, depreciation no longer applies to the seller.
- The asset no longer has a future benefit – if an asset is damaged beyond use or becomes obsolete, its depreciation ceases.

Other considerations

Changes in asset condition:

- If an asset's condition deteriorates, its remaining useful life and depreciation schedule will be adjusted to reflect its economic value.

Depreciation applies to finite assets:

- Most assets are finite, with a limited lifespan, meaning they gradually lose value over time and eventually need replacement.
- Examples include plant and equipment.

Certain assets do not depreciate:

- Paintings and artwork – typically appreciate rather than lose value.
- Land – unlike buildings, land does not wear out or lose usefulness over time.
- Earthworks on roads assets – these are maintained rather than depreciate.

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