POLICY OBJECTIVE

The objective of this Policy is to provide consistent guidelines, in accordance with relevant Accounting Standards and State Government Policy, regarding Council assets that are to be capitalised (as opposed to expensed). The Policy:

- States what Council's Asset classes/ groups are, and the assets that each Asset class/ group contains;
- Specifies the principles for recognising an asset for capitalisation; and
- States what 'measurement after recognition' model Council applies to its assets.

SCOPE

This Policy applies to non-current physical assets. Accounting standards (particularly AASB 116 – Property, Plant and Equipment) require a distinction to be made between expenditure that is consumed immediately in operations (or within one financial year) and expenditure on physical assets that will provide service over more than one financial year. Typical non-current physical assets managed by Council include roads, bridges, footpaths, drains, parks, and buildings used by the community.

LEGISLATIVE REQUIREMENTS

The Policy should be read in conjunction with the following legislation and regulations:

1. Local Government Act 1993;
2. Local Government (General) Regulations 2005;
3. Australian Accounting Standard AASB 116 – Property, Plant and Equipment.

POLICY STATEMENT

This policy should be viewed as part of a holistic Asset Management framework for the efficient management of Council owned assets on behalf of the community.

<u>Background</u>

This policy is to provide Council Officers involved in budgeting and expenditure decisions clear guidance when classifying expenditure in the corporate Finance system. It establishes the capitalisation criteria at the point of recognition of an asset.

The recording of expenditure on an asset means that it is recorded in the Council's balance sheet and the details are entered into the corporate asset register. The process is referred to as asset capitalisation. Such expenditure on assets is referred to as capital expenditure.

Importantly, capital expenditure is divided between renewal, upgrade and new expenditure classifications. This distinction provides information to assist the organisation to determine whether it is maintaining assets to a sustainable level of service.

Asset Hierarchy

The Asset Hierarchy forms the basis for the structure of Asset Registers, for Asset Management Plans and for Capital Budgeting. The structure will depend both on external linkages (for example, required State reporting formats and accounting standards) and the range and number of assets in different classes owned by Council. **Table 2** provides a summary of the Asset Hierarchy for Edward River Council, including how assets are categorised into their respective asset group, asset category, asset components, and financial note asset class.

Context of Capitalisation

Capitalisation rules relate to the treatment of asset values recognized in the current financial year, that is, whether they are capitalised or expensed. However, it should be noted that when the asset group is re-valued, the net effect of (expensed) maintenance work will be reflected in the asset condition, and hence in the new value assigned to the asset.

Recognition of Assets

Measurement at Recognition

In accordance with Australian Accounting Standard AASB 116 – Property, Plant and Equipment (AASB 116):

a) An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.
b) Not-withstanding this, where an asset is acquired at no cost, or for a nominal cost (as is the case with developer and other contributed assets), the cost is its fair value as at the date of acquisition.

Existing assets identified as not being reported in the financial statements for the preceding financial reporting period (found assets), will be treated in accordance with (b) above.

Elements of Cost

AASB 116 defines the cost of an item of property, plant and equipment as comprising:

a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
b) Any costs directly attributable to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management;
c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurred either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples of costs that are not costs of an item of property, plant and equipment are:

a) Costs of opening a new facility;
b) Costs of introducing a new product or service (including advertising);
c) Costs of conducting business in a new location or with a new class of customer;
d) Administration and other general overhead costs.

Activities associated with the acquisition/ creation of new assets are detailed in **Table 1** below and separated into the categories of recurrent expenditure or capital expenditure.

Table 1: Asset Activities Associated with Recurrent Expenditure and Capital Expenditure

Activities Recognised as Recurrent Expenditure	Activities Recognised as Capital Expenditure
• Strategic planning reports • Project scoping and investigation, valuation reports, planning approvals	• Survey and design • Professional fees • Site preparation • Construction • Contract payments • Council direct costs, wages, salaries, plant hire, materials, on-costs, traffic management • Overheads • Supervision • Transport, installation, assembly and testing • Project Management • Future dismantling and removing item and site restoration (where applicable)

It should be noted that the capital value of a project (and thus the value of assets) may be significantly different than the revalued amount. This is often because of the revaluation process which uses 'greenfield' unit rates based on the costs that would be included on initial acquisition/ construction of the asset at an undeveloped site. The capital value of asset renewals will often include items such as demolition of an old asset or traffic management tasks which increase costs over that of the 'greenfield' unit rates used in revaluations.

Materiality

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make based on the financial statements.

Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

In the context of materiality, it is not necessary to recognise every non-current asset. For example, a calculator may have a useful life greater than 12 months, but its value is small and does not warrant the cost of recording in the asset register, so it is more appropriate to expense it. Where a noncurrent asset is not material and as such is not capitalised, it is referred to as a minor asset.

Expenditure may still be capitalised on items that are individually immaterial, however are significant when considered as a group of assets, such as signs or reserve furniture.

The purpose of setting capital expenditure threshold levels is to provide the greatest balance between efficiency in administrative effort associated with maintaining records and the need to 'expense' items, through depreciation.

The general principle applied to the capitalisation thresholds within this policy, is that if the asset has been replaced in full, then it is generally treated as Capital expenditure. If only part of the asset has been replaced, then the decision to capitalise or expense the costs will be based in the first instance on any capitalisation rules defined in terms of physical work activities and subsequently in accordance with the capitalisation threshold, for the relevant asset category / asset component.

Council's capitalisation thresholds for assets are contained in Table 2 on following pages and are provided to guide staff in applying consistent approaches for asset recognition and capitalisation.

<u>Corporate Asset Register Rules for Full Renewal of Existing Assets</u>

The renewal/replaced asset component will be disposed of, and remaining value will be written off. A new asset component will be created at cost. A new assessment of Condition and Useful Life is required.

<u>Corporate Asset Register Rules for Partial Renewal of Existing Assets</u>

The following rules will apply to the partial renewal of existing assets:

Rule 1: Segmentation (typically used for linear assets such as roads, pipes, kerb and gutter, other) -

Where partial renewal is considered capital renewal, as per Asset Category / Asset Component tables, the following applies:

1. The existing asset is re-segmented.
2. For the renewed portion of the old asset, the relevant portion/segment of the old asset is retired from the corporate asset register and the renewal capital expenditure is settled to a new asset.
3. For the remaining portion of the old asset, the written down value will reflect the remaining value recorded in the corporate asset register. A new assessment of Condition and Useful Life is required.

Rule 2: Reapportionment (typically for non-linear assets such as part/ component of a building) -

Where partial renewal is considered capital renewal, as per Asset Category / Asset Component tables, the following applies:

1. For the renewed portion of the asset, the written down value of the relevant renewed portion of the old asset is retired from the corporate asset register.
2. The renewal capital expenditure is added to the written down value of the current asset.
3. A new assessment of Condition and Useful Life is required.

Rule 3: Asset Network

Where individual items of an asset network are renewed and/or replaced, the average written down value of these items is subtracted from the written down value of the asset network and the cost of the renewal and or replacement is added.

Capital Projects with Multiple Asset Categories

For capital projects, which include multiple asset Categories or Components, the capital expense for each Asset Category or Asset Component needs to be separated out in order to apply the asset recognition rules within this Asset Capitalisation Policy. This process will be assisted via:

a) The adoption of a robust Project Handover procedure, which details the minimum data required to be entered into the corporate Asset Register for each asset type.
b) The analysis of post-construction contract schedules detailing actual values of assets, and components, and an appropriate allocation of costs.

Capitalisation Thresholds for Asset Categories

Table 2 following provides guidance in determining whether expenditure is capital and material in nature and therefore requires capitalisation. The Building and Infrastructure Asset Groups shown in the table relate to the respective Asset Management Plans (AM Plans).

ASSOCIATED POLICIES AND PROCEDURES

- Asset Management Policy;
- Asset Management Strategy;
- Asset Management Plans.

DEFINITIONS

Asset Renewal – Asset renewal is the disposal and replacement, or rehabilitation, of an existing asset to the same level of service as the existing asset. Examples of asset renewal include:

- Resealing of existing sealed roads;
- Replacement of existing kerb and gutter; and
- Re-roofing existing buildings with the same material.

There may be small improvements in the asset as part of asset renewal works due to newer construction techniques, however, any such improvements shall not lead to an improvement in the level of service that the asset provides.

Asset Upgrades – Asset upgrades are where existing assets are refurbished or rehabilitated, to a level of service greater than the existing asset. Examples of asset upgrades include:

- Sealing of road shoulders;
- Installing carpet or vinyl flooring for wooden floored buildings;
- Replacing existing pumps with larger capacity pumps.

New Assets - New assets are assets that when constructed do not replace an existing asset but provide a new service to the community. Examples of new assets include:

- Sealing a previously unsealed road;
- Constructing new buildings; and
- Installing new playground equipment.

Greenfield – New assets constructed on sites that have not previously been developed or do not have any constraints that may impact the cost of construction.

Brownfield – New assets or asset upgrades constructed on sites that have previously been developed or have constraints that may impact the cost of construction. Examples of constraints include existing assets that need to be demolished or removed and underground services that may impact construction.

POLICY VERSION CONTROL

Title	**Asset Capitalisation Policy**			
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Date Adopted	**19 March 2020**			
Council Minute No.	**2020/46**			
Responsible Officer	**Director Infrastructure**			
Version Number	**Modified By**	**Modifications Made**	**Date modified and Approved by Council**	**Council Minute Number**

Table 2: Asset Hierarchy with Capitalisation Thresholds – Summary

Asset Group	**Asset Category**	**Asset Component**	**Asset Class (For Finance)**	**Capital -ised**	**Deprec -iated**	**Capitalisation Threshold $**	**Measure**
LAND	Land	Land (includes Land Under Roads post 2008)	1.Operational land 2.Community land 3.Crown land	Y	N	$1	N/A
PLANT & EQUIPMENT	Plant & Equipment	Minor Plant (excludes maint. consumables)	Plant & Equipment	Y	Y	$5,000	N/A
		Major Plant (excludes maint. consumables)	Plant & Equipment	Y	Y	$10,000	N/A
	Office Equipment	Computers, printers, other	Office Equipment	Y	Y	$2,000	N/A
	Furniture & Fittings	Desks, partitions, other	Furniture & Fittings	Y	Y	$2,000	N/A
BUILDINGS (AM Plan)	Buildings	Roof, structure, fit-out, building Services,	1.Buildings: non-specialised 2. Buildings: specialised	Y	Y	$20,000 <u>or</u> 20% of total building value	N/A
OPEN SPACE & RECREATION (AM Plan)	Land improvements (Passive Recreation assets)	Park Furniture, monuments, landscaping, fencing, lighting, watering systems	Land improvements - depreciable	Y	Y	$5,000	N/A
	Swimming Pools	Swimming pools – shell, shade structure	Swimming pools	Y	Y	$10,000	N/A
		Swimming pools – plant & equipment	Swimming pools	Y	Y	$5,000	N/A
	Open Space/ Recreation (Active Recreation assets)	Playgrounds, fencing, lighting, watering system, shelters, jetties	Other open space/ recreational assets	Y	Y	$5,000	N/A
		Boat Ramps, Skate Parks, Playing Courts, Ovals,	Other open space/ recreational assets	Y	Y	$10,000	N/A
FLOOD MITIGATION & DRAINAGE (AM Plan)	Stormwater Drainage	Culverts, Pipes, Inlet/ outlets,	Stormwater Drainage	Y	Y	$10,000 **<u>or</u>** replace ≥ 50% of asset value	N/A
	Flood Mitigation	Levees, Retention basins,	Other Structures	Y	Y	$10,000	N/A
		Pumps, Equipment	Other Structures	Y	Y	$5,000	N/A

Table 2: Asset Hierarchy with Capitalisation Thresholds – Summary (continued)

Asset Group	**Asset Category**	**Asset Component**	**Asset Class (For Finance)**	**Capital -ised**	**Deprec -iated**	**Capitalisation Threshold**	
						$	**Measure**
WATER (AM Plan)	Water Network	Water mains/ pipes, Dams/ reservoirs,	Water supply network	Y	Y	$10,000	N/A
	Water Treatment	Treatment plant and equipment	Water supply network	Y	Y	$5,000	N/A
SEWERAGE (AM Plan)	Sewerage network	Pipes, Pits, Treatment plant	Sewerage network	Y	Y	$10,000	N/A
	Sewerage Treatment	Treatment plant and equipment	Sewerage network	Y	Y	$5,000	N/A
TRANSPORT (AM Plan)	Sealed Roads (roads, air-strips, parks)	Formation	Bulk earthworks	Y	Y	$20,000	≥ 60m Urban or 250m Rural (based on ≥ 20% of segment renewed)
		Pavement	Roads			$20,000	
		Seal	Roads			-	
	Unsealed Roads	Formation	Bulk earthworks	Y	Y	-	≥ 200m length <u>or</u> 300t gravel <u>or</u> 20% of segment
		Pavement	Roads	Y	Y	-	
	Bridges	Superstructure; sub-structure, abutments	Bridges	Y	Y	$20,000	N/A
	Footpaths	Pathways (Concrete/ sealed/ pavers/ construction)	Footpaths and kerb & gutter	Y	Y	-	≥ 20m length or ≥ 20% of segment
		Pathways (Gravel construction)	Footpaths and kerb & gutter	Y	Y	-	≥ 20% segment replaced
	Kerb and Gutter	Kerb and Gutter	Footpaths and kerb & gutter	Y	Y	$5,000	≥ 20m length
	Traffic Furniture	Signs	Other road assets	Y	Y	$5,000	N/A