COUNCIL POLICY

Council Policy Title:	**Asset Capitalisation Policy**
Council Policy ref. no:	16.6
Responsible Department:	Corporate Services
Date of adoption/review:	23 September 2015

1. INTRODUCTION

Non-current physical assets represent the overwhelming majority of Council's asset base. Renewal and maintenance of non-current physical assets also form the basis of much of Council's spending programs as detailed in Council's Annual Budgets. As such it is critically important to recognise and record these assets in a correct and efficient manner.

The asset capitalisation policy provides a framework for Council to recognize and record assets created, gifted or disposed of in an accurate and efficient manner.

2. PURPOSE

To provide consistent guidelines, in accordance with relevant Accounting Standards and State Government Policy, regarding which Council assets are to be capitalised (as opposed to expensed). The policy:

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

3. SCOPE

This policy only applies to non-current physical assets. This policy directs those Council officers who are charged with accounting for Council's Assets and related purposes.

4. BACKGROUND

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.

This policy is to provide staff 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 as 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 often referred to as 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.

5. RELATED DOCUMENTS

There are a number of other related Council documents which should be read in conjunction with this Asset Capitalisation Policy, as follows:

- Asset Management Strategy
- Asset Valuation and Revaluation Policy

This policy shall also be influenced by the following Accounting Standards:

- AASB 116 – Property Plant & Equipment
- AASB 13- Fair Value Measurement

6. PRINCIPLES

(a) Asset Hierarchy (Accounting Perspective)

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, adopted data interchange arrangements with developers) and on the range and nature of assets in different classes owned by Council. The hierarchy componentisation is discussed in relation to the specific Asset Categories. Appendix A shows Council's currently implemented asset heirarchy

(b) Context of Capitalisation

Capitalisation rules relate to the treatment of asset values recognised in the year the expense is incurred, that is, whether they are capitalised or expensed. In the instance where an asset is incomplete at the end of the accounting period (i.e a road reconstruction had not been fully completed by June 30), the expense incurred on that asset will be capitalized into a Works in Progress account which will be disclosed in the Balance Sheet.

Works that are carried out upon an existing asset that are considered to be maintenance (i.e routine servicing, painting, etc) shall be expensed as incurred and not capitalised, as per the recognition requirements of AASB116.

(c) Recognition

Measurement at Recognition

Paragraph 7 of AASB 116 defines that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

a) It is probable that future economic benefits associated with the item will flow to the entity; and

b) The cost of the item can be measured reliably.

ASB116 also dictates that:

a) An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. Paragraph 15 of AASB116

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.

Recognition 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;

d) Administration and other general overhead costs.

Activities associated with acquisition/creation of new assets are detailed in the table below.

Recurrent Expenditure	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)

(d) Materiality

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

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

The purpose of setting capital expenditure threshold levels is to provide a 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 and capitalized to the relevant asset account in the Balance Sheet.

If only part of the asset has been replaced, then the decision to capitalise or expense the costs will be based on the nature and scope of the works being undertaken – for example if the asset is only partly replaced due to timing issues at the capitalization date, then those works completed on the asset will be capitalized to a Works in Progress account and then transferred to the relevant asset account at a later time when works have been completed. If however, partial works are completed and of such nature as they only assist in maintaining the working nature of the asset and do not fundamentally change the structure of the asset, then that cost will be expensed through Profit & Loss (i.e replacing a windscreen in a motor vehicle will not fundamentally alter the nature of that asset and can be classified as maintaining the operational capacity of the asset and are therefore expensed through Profit & Loss).

To aid clarity, examples of physical work activities that are considered operating or maintenance expenditure have also been provided.

Council's capitalisation thresholds for assets are contained in Appendix A, to guide staff in applying consistent approaches for asset recognition.

(e) Corporate Asset Register Rules for Full Renewals/Replacements

Where appropriate any renewed/replaced Asset Component will be disposed of and remaining value will be written off. A new Asset Component will be created at cost/fair value. A new assessment of Condition and Useful Life is required.

(f) Corporate Asset Register Rules for Partial Renewals

Rule 1: Segmentation (typically for linear assets i.e. Roads, pipes, kerb, etc.)

Where partial renewal is considered capital renewal, as per Asset Category / Asset Component tables, and the individual segments are identified, 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 i.e. part of a building component)

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.

Rule 4: Partially Completed Capital Works at the end of Accounting Period

Where capital expenditure on an asset is incomplete at the end of an accounting period due to timing issues, the expenditure incurred, if meeting recognition requirements, shall be capitalised to Works In Progress. Upon completion of the capital expenditure the amount held in Works In Progress shall be transferred to the appropriate asset account.

7. AUDIT AND REVIEW

The Asset Capitalisation Policy shall be reviewed at least every four (4) Years, in line with Council elections.

ADOPTED/AMENDMENT OF POLICY

Policy Review Date	Reason for Amendment
23 September 2015	Adoption by Council

Appendix A
Asset Hierarchy, Recognition Thresholds and Depreciation Periods.

Asset heriarchy, recognition thresholds and depreciation periods	Depreciation Period	Threshold Limit
Land and Buildings		$'000
Land		
land	-	-
land under roads	-	-
land improvements	-	5
Buildings		
heritage buildings	10 - 180 years	5
buildings	10 - 180 years	5
shelters	10 - 90 years	5
building improvements	10 - 180 years	5
leasehold improvements	10 - 180 years	5
Plant and Equipment		
Furniture		
art work	0 - 100 years	4
indoor furniture	5 - 30 years	4
playground equipment	10 - 40 years	4
Plant		
heritage plant and equipment	-	10
fixed plant, machinery and equipment	3 - 50 years	10
fleet (vehicles)	3 - 30 years	10
major plant	3 - 50 years	10
minor plant	3 - 10 years	4
Equipment		
appliances	3 - 60 years	4
fixed equipment / fixtures and fittings	5 - 55 years	4
computers and telecommunications	3 - 21 years	4
leased plant and equipment	-	4

Appendix A
Asset Hierarchy, Recognition Thresholds and Depreciation Periods.

Asset heriarchy, recognition thresholds and depreciation periods	Depreciation Period	Threshold Limit
Infrastructure		
Infrastructure		
road and tarmac formation and earthworks	-	10
road and tarmac pavements	10 - 80 years	10
road and tarmac substructure	-	10
road and tarmac seals	10 - 60 years	10
road and tarmac kerb, channel and minor culverts	45 - 80 years	2.5
footpaths and cycleways	15 - 50 years	2.5
Bridges		
bridges deck	10-70 years	10
bridges substructure	10-70 years	10
bridges major culverts	50 - 70 years	10
Drainage		
open drainage network (previously year <> years 10)	10 - 100 years	10
pit and pipe network	40 - 100 years	10
water retention structuctures	80 - 100 years	10
Other Infrastructure		
gardens and landscaping	5 - 25 years	10
playing surfaces	10 - 70 years	10
retaining structures	10 - 45 years	10
maritime infrastructure (not included elsewhere)	25 - 100 years	50
off street car parks	25 - 100 years	10
aerodromes	25 - 100 years	10
Intangible assets		
software	5 years	4