

Asset Capitalisation

Council Policy Number	144
Date adopted	20 June 2023
Scheduled for review	20 June 2026



1. Purpose

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

The policy:

- Specifies the principles for recognising an asset for capitalisation
- States what 'Measurement and Recognition' model Council applies to its assets
- Provides guidance to staff involved in budgeting and expenditure decisions around assets
- Provides direction on responsibilities around asset data management
- Assists staff in determining appropriate funding sources for asset works.

This policy applies to all non-current assets of the Council.

Accounting standards (particularly Australian Accounting Standards Board ('AASB') 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, normally many years.

Typical physical non-current assets managed by Council include roads, bridges, footpaths, drains, parks and buildings. Typical non-physical assets managed by Council include software, licenses, water rights, trademarks, copyrights and images.

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, expansion and new expenditure classifications.

2. Definitions

Asset Recognition Rules

Council Asset Recognition Rules are contained in this policy. These rules outline when expenditure is classed as capital and is required to be recorded on the corporate asset register. The rules are defined principally in physical terms to align with budget setting, assist asset register capture and aid technical staff with decision making.

In general, expenditure that creates a new asset or upgrades / enhances an existing asset is treated as capital expenditure (subject to asset recognition rules).

Where capital expenditure is classed as renewal / replacement of entire asset, the replaced asset is retired from the corporate asset register and the new asset capitalised.

Asset disposals that are not related to renewal works are dealt with under the Council Asset Rationalisation and Disposal Policy.

A Non-Current Asset	Any asset which is not expected to be fully consumed, realised, sold or otherwise disposed of within one financial year. Not all non-current assets will be capitalised under this policy.
Corporate Asset Register	Asset database containing physical, technical, financial and service level information for each asset. Spatial representation of assets is recorded through GIS software. The assets capitalised under this policy will form a subset of the corporate asset register which should include all non-current assets not just capitalised assets.
Capital Expenditure	<p>Is the expenditure used to create a new assets or to increase the capacity of existing assets beyond the original design capacity or service potential. Capital expenditure increases the value of asset stock. This is determined by the asset recognition rules and expenditure can fall under one of the following categories and includes the entire asset component, where an asset has been componentised:</p> <p>a) Renewal is expenditure on an existing asset or replacing an existing asset that returns the service capability to its original capacity.</p> <p>(Future operating and maintenance expenditure may be reduced if completed at the optimum time, e.g. resurfacing or re-sheeting part of a road network, replacing a section of a drainage network with pipes of the same capacity, resurfacing an oval.)</p> <p>b) Upgrade is expenditure that –</p> <p>i. enhances an existing asset to provide a higher level of service; or</p> <p>ii. increases the life of the asset beyond its original life.</p> <p>(It will generally increase operating and maintenance expenditure, including depreciation, in the future because of the increase in the council's asset base, e.g., widening the sealed area of an existing road, replacing drainage pipes with pipes of a greater capacity, enlarging a grandstand at a sporting facility, building extension etc.)</p> <p>c) Expansion is expenditure that extends the capacity of an existing asset to provide benefits to new users at the same standard as is provided to existing beneficiaries.</p> <p>(It is discretionary expenditure, which increases future operations and maintenance costs, because it increases the organisation's asset base, but may be associated with additional revenue from the new user group, e.g. extending a drainage or road network, the provision of an oval or park in a new suburb for new residents.)</p> <p>d) New is expenditure that creates a new asset that provides a service that does not currently exist.</p>
Operating Expenditure	is recurrent expenditure, which is continuously required to provide a service. It is also any expenditure that does not fall within the asset recognition rules (including expenditure on assets that are not owned or managed by Council).
Maintenance Expenditure	is recurrent expenditure, specifically on an asset, which is periodically required as part of the anticipated schedule of works needed to ensure that the asset achieves its estimated useful life and provides the required level of service. It is expenditure, which was anticipated in determining the assets useful life. It is normally relatively low cost compared to the asset value. Maintenance expenditure includes reactive maintenance and repair or planned maintenance.

3. Policy Statement

1. The Asset Recognition Matrix below defines how expenditure on assets will be recognised.
2. Assets with shared ownership or control will be recognised in proportion to Council's agreed management interest.
3. The Asset Recognition Rules define how expenditure is treated financially.
4. The responsibility to record and manage assets not recognised under this policy will be defined in the Asset Management Strategy.
5. Only assets capitalised under this policy will depreciate and contribute to the determination of available annual renewal funds under the Strategy.

ASSET RECOGNITION MATRIX

The following matrices define the treatment of assets based on management and ownership structures:

Land Ownership	Asset Management							
	Council Managed (Direct)	Council Managed (Delegated)	Council Managed (Contract)	Council Licensed or Agreed (Council Lessee/Licensee)	Asset Commercially Leased (Council Lessor)	Other (non-commercial) Lease (Council Lessor)	DEECA Local Committee	Other
Council Land	1	1	1		2	3		3
Crown Land -Council Committee of Management	1	1	1		2	3		3
Crown Land – Vested	1	1	1		2	3		3
Crown Land – Lease	1	1	1		2	3		3
Crown Land – Non-Council Managed Other Committee of Management				1			4	
Private Land				1				5 – Proposed Subdivisions
Government Road	1			1			4	

Mobile/Non-Fixed Physical Asset Ownership	Asset Management							
	Council Managed (Direct)	Council Managed (Delegated)	Council Managed (Contract)	Council Licensed or Agreed (Council Lessee/Licensee)	Asset Commercially Leased (Council Lessor)	Other Lease (Council Lessor)	DEECA Local Committee	Other
Council	1				1*	3		3
Private				6				

Non-Physical Asset Ownership	Asset Management							
	Council Managed (Direct)	Council Managed (Delegated)	Council Managed (Contract)	Council Licensed or Agreed (Council Lessee/Licensee)	Asset Commercially Leased (Council Lessor)	Other Lease (Council Lessor)	DEECA Local Committee	Other
Council	1				2	3		3
Private				6				

1. Expenditure is recognised per Asset Recognition Rules of this policy. (* Due to changes in accounting standards leased assets will be depreciated from 1 July 2019)
2. Expenditure is recognised per Asset Recognition Rules of this policy but asset recorded on corporate asset register is not depreciated.
3. Refer to specific agreement in place outlining the treatment of expenditure. If no agreement in place, asset remains on corporate asset register until agreement is in place (peppercom leases).
4. Any expenditure is at Council's discretion and is deemed to be operational.
5. Assets are not recognised (until a Statement of Compliance is issued).
6. Assets are not recognised

4.1 Measurement and Recognition Rules

In accordance with AASB 116:

- a. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.
- b. Notwithstanding this, where an asset is acquired at no cost, or for a nominal cost (as the case with developer and other granted assets), the cost is its fair value as at the date of acquisition.

Assets owned by Council not previously recognised shall be capitalised in line with the requirements of AASB 116. New assets will be allocated an ID number before being added to the asset register.

4.2 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.¹

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;

Activity	Recurrent Expenditure	Capital Expenditure ²
All activities prior to decision made to proceed with investment including: <ul style="list-style-type: none"> ▪ Strategic planning reports ▪ Project feasibility planning and investigation 	✓	
All activities following decision made to proceed with investment including: <ul style="list-style-type: none"> ▪ Planning approvals ▪ Survey and design ▪ Professional fees ▪ Site preparation ▪ Construction ▪ Contract payments (excluding compensation payments) ▪ Council direct costs, wages, salaries, plant hire, materials, on-costs ▪ Administration and other general overhead costs. ▪ Supervision ▪ Transport, installation, assembly and testing ▪ Project Management Future dismantling and removing item and site restoration (where applicable)		✓

1. AASB, 2004, Framework for the Preparation and Presentation of Financial Statements, para 89

2. Capital expenditure subject to expenditure recognition criteria section of this policy

4.3 Work In-Progress

Work-in-progress shall be monitored and reviewed regularly to determine whether development costs for projects should be capitalised upon completion. In line with best practice, Project Managers are required to send Asset Transfer Forms and Project Completion Certificates to the Assets Department as soon as a project is finalised. This ensures development costs ready to be capitalised commence with an accurate useful life.

The [insert title of asset officers] will review the Asset Transfer Forms and Project Completion certificates, and capitalise the project developments adding the new assets to the asset register

The Finance Manager is notified of Project Completion Certificates being uploaded onto the Asset Management System. The Work-in-Progress General Ledger is reviewed by the Management Accountant and recently completed projects capitalised are removed from the ledger.

See Appendix A for Work-In-Progress Flowchart.

4.4 Materiality

AASB outlines information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to:

- a) influence the economic decisions of users taken on the basis of the financial statements; or
- b) affect the discharge of accountability by the management of governing body of the entity.

Materiality can depend on the size and nature of the omission or misstatement judged in surrounding circumstances.

Based on the materiality level set, it is not necessary to recognise and capitalise every potential non-current asset. For example expenditure of items of capital nature may only have a useful life greater than 12 months but its value is minor and would not affect the economic decisions of the Council if not capitalised. For example, a calculator, office lamp or keyboard. When such expenses are immaterial and not capitalised, they are expensed and coded as minor, low value or miscellaneous assets.

The purpose of setting a threshold is to minimise the expense, time and effort associated with maintaining the asset register. This must be balanced with the need to expense items through depreciation.

Care should be taken when determining capital expenses, which alone, would normally be under the threshold. However, if they form part of a collection or group of assets with a total value that is material could be capitalised as part of a project. For example painting on its own would normally be expenses but if it was to upgrade a company vehicle, it would be deemed material and capitalised.

Asset class capitalisation thresholds are contained in the Capitalisation Thresholds table in Appendix B.

4. Exclusions

Nil

5. Human Rights

This report has considered and complies with the Human Rights and Responsibilities contained in the Victorian Charter of Human Rights and Responsibilities Act 2006.

6. Related Legislation

Legislative requirements which Council must comply with include:

The Local Government Act 2020, Section 98 provides that Council must prepare Financial Statements in accordance with the Act.

Australian Accounting Standards Board (AASB). This policy has been developed in accordance with the following AASB Standards

- AASB 116 Property Plant & Equipment
- AASB 1041 Revaluation of Non-current Assets
- AASB 136 Impairment of Assets
- AASB 1049 Whole of Government and General Government Sector Financial Reporting

Additional guidance material is available including:

- Australian Infrastructure Financial Management Manual (2015)
- Victorian Auditor-General's Office – issues annual reports on the results of Local Government
- Audits, including comments and recommendations regarding aspects of asset valuation practice.
- Department of Treasury and Finance – issues financial reporting directions and financial reporting guidance notes, some of which are applicable to Local Government.
- Local Government Victoria – Local Government Asset Management – Better Practice Guide.

7. Related Policies, Procedures and Strategies

Nil

8. Attachments

Asset Recognition Rules

9. Review Period,

Three years

Responsible officer

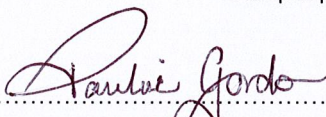
Asset Manager and Chief Financial Officer (CFO)

10. Administrative Updates

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter the policy, such a change may be made administratively. Examples include a change to the name of a Council department, a change to the name of a Federal or State Government department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be by resolution of Council.

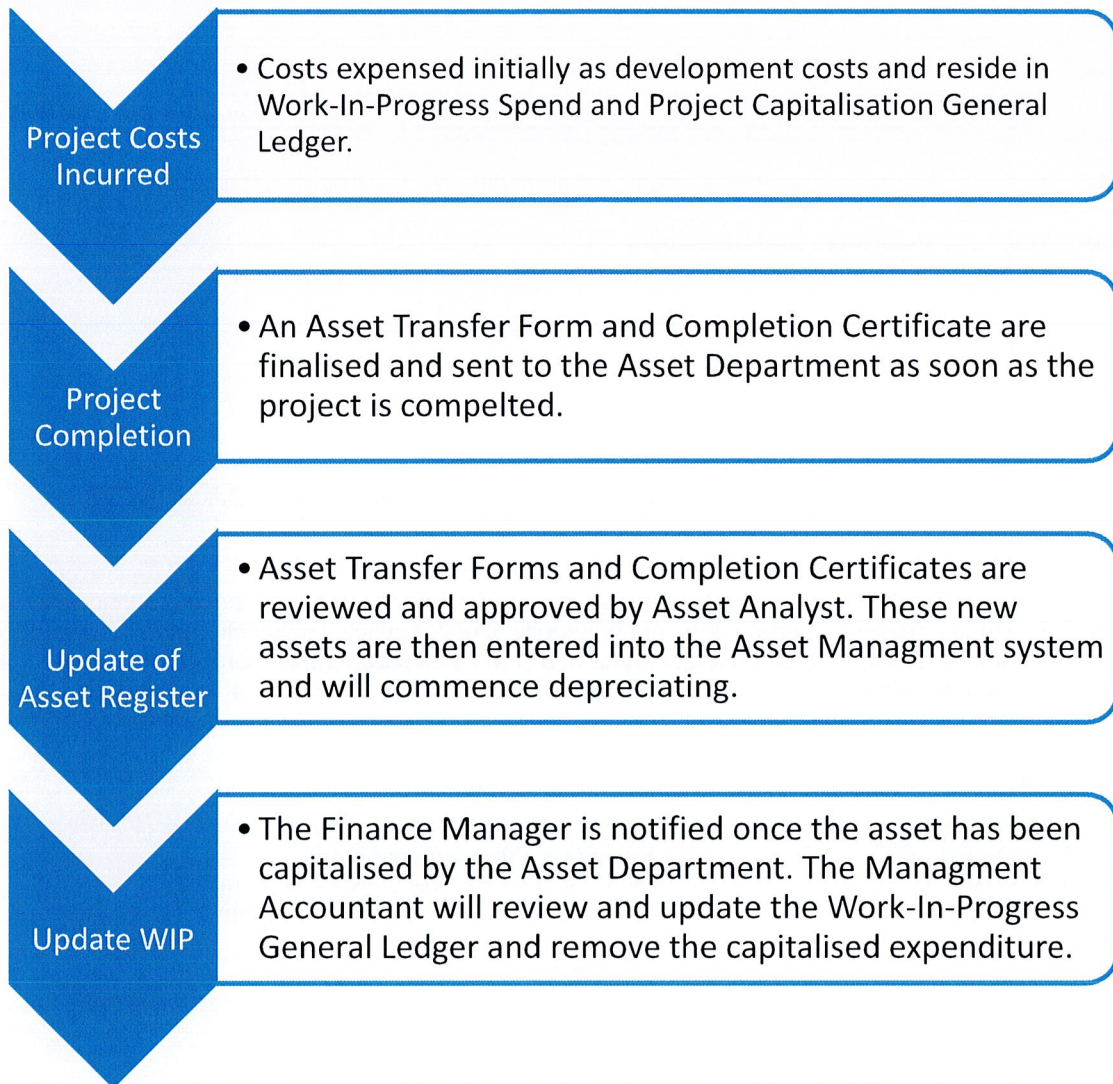
11. Approval History

Adopted	11 September 2013	Executive Management Group
Reviewed	14 December 2016	Executive Management Group
Reviewed	19 February 2019	Minutes Book Reference No 404 (item 7.2)
Revised	23 June 2020	Minute Book Reference No 2221 (Item 9.6)
Revised	1 March 2021	Administrative update to apply consistent reference to Campaspe Shire Council ('Council')
Revised	20 June 2023	Campaspe Shire Council ('Council') Meeting Resolution

Chief Executive Officer: 

Date: 8/7/2023

Appendix A – Work-in-Progress Review Process



Council Policy

Council Policy

Council Policy

Council Policy

Asset Group ¹	Asset Category ⁴	Asset Component ²	Asset Class ⁵	Recognised (Y/N) ⁶	Valuation Method		Condition Assessment		Revaluation Frequency (Years)	Adopted Asset Life	Depreciation Method
					Fair Value Method ⁷	If DRC Age-based or Cond-Based	Frequency (Years)	What % Condition Inspection Annually			
SWIMMING POOLS	Recreational, Leisure and Community	Pool Structure (Shell)	Swimming Pools	Y	DRC	Condition	3	N/A	3	80	Condition-Based
		Water Treatment Systems	Swimming Pools	Y	DRC	N/A	3	N/A	3	1-50	Straight-Line
		Water Treatment Facility	Swimming Pools	Y	DRC	N/A	3	N/A	3	20	Straight-Line
	Pools Surrounds & Equipment	Pool Structures	Swimming Pools	Y	DRC	Condition	3	N/A	3	5-80	Condition-Based
BRIDGES	Bridges (Incl. Major Culverts, Footbridges & boardwalks)	Super-Structure	Bridges	Y	DRC	Condition	3	33	3	100	Condition-Based
		Major Culverts	Bridges	Y	DRC	Condition	3	33	3	100	Condition-Based.
		Super-Structure	Footbridges & boardwalks	Y	DRC	Condition	3	N/A	3	50	Condition-Based
ARTWORKS, MONUMENTS, ARTEFACTS & EXHIBITS	Artworks	Artworks	Artworks	Y	HC	N/A	N/A	N/A	N/A	N/A	Not Depreciated
	Artefacts & Exhibits (Furniture & Equipment)	Building Equipment	Artefacts & Exhibits	Y	HC	N/A	N/A	N/A	N/A	5-20	Straight-Line
	Other Infrastructure	Statues & Monuments	Monuments, Statues & Fountains	Y	HC	Age	N/A	N/A	N/A	100	Straight-Line

Asset Group ¹	Asset Category ⁴	Asset Component ²	Asset Class ⁵	Recognised (Y/N) ⁶	Valuation Method		Condition Assessment		Revaluation Frequency (Years)	Adopted Asset Life	Depreciation Method
					Fair Value Method ⁷	If DRC Age-based or Cond-Based	Frequency (Years)	What % Condition Inspection Annually			
	Other Infrastructure	Plaques	Plaques	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Fountains & Water Features	Drinking Fountains	Drinking Fountains	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		Water Features	Water Features	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FOOTPATHS & CYCLEWAYS	Footpaths & Cycleways	Footpaths & Cycleways	Footpaths & Cycleways	Y	DRC	Condition	5	N/A	5	50	Condition-Based
PLANT & EQUIPMENT	Plant and Equipment	Plant - Heavy	Plant and Equipment	Y	HC	Age	N/A	N/A	N/A	3 - 10	Straight-Line
		Plant - Minor	Plant and Equipment	Y	HC	Age	N/A	N/A	N/A	1 - 5	Straight-Line
		Fleet & Light Vehicles	Plant and Equipment	Y	HC	Age	N/A	N/A	N/A	3 - 5	Straight-Line

Asset Group ¹	Asset Category ⁴	Asset Component ²	Asset Class ⁵	Recognised (Y/N) ⁶	Valuation Method		Condition Assessment		Revaluation Frequency (Years)	Adopted Asset Life	Depreciation Method
					Fair Value Method ⁷	If DRC Age-based or Cond-Based	Frequency (Years)	What % Condition Inspection Annually			
	Fittings Furniture & Equipment	Furniture & Office Equipment	Plant and Equipment	Y	HC	Age	N/A	N/A	N/A	3 - 15	Straight-Line
	Heritage Plant & Equipment	Heritage Plant & Equipment	Plant and Equipment	Y	DRC	Age	N/A	N/A	N/A	100	Straight-Line
	Computers & Telecommunications	Computers & Telecommunications	Plant and Equipment	Y	HC	Age	N/A	N/A	N/A	4	Straight-Line
BUILDINGS	Buildings	Structure – Long Life	Buildings	Y	DRC	Condition	3	N/A	3	75	Condition-Based
		Structure – Short Life	Buildings	Y	DRC	Condition	3	N/A	3	25-50	Condition-Based
		Other Structures (Town Entrances)	Buildings	Y	DRC	Condition	3	N/A	3	25-50	Condition-Based
Buildings	Investments Properties	Structure – Long Life	Investments Buildings	Y	DRC/MV	Condition	3	N/A	1	75	Condition-Based

Asset Group ¹	Asset Category ⁴	Asset Component ²	Asset Class ⁵	Recognised (Y/N) ⁶	Valuation Method		Condition Assessment		Revaluation Frequency (Years)	Adopted Asset Life	Depreciation Method
					Fair Value Method ⁷	If DRC Age-based or Cond-Based	Frequency (Years)	What % Condition Inspection Annually			
LAND	Land	Land – Crown Land	Land	Y	MV	N/A	N/A	N/A	3	Indefinite	Not Depreciated
		Land – Council Owned	Land	Y	MV	N/A	N/A	N/A	3	Indefinite	Not Depreciated
		Land Improvements	Land	Y	M/V	N/A	N/A	N/A	N/A	1-50	Straight Line
		Land Under Roads	Land	Y	MV	N/A	N/A	N/A	3	Indefinite	Not Depreciated
OPEN SPACES	OPEN SPACES, PARKS & STREETSCAPES	Irrigation-Miscellaneous	Irrigation	Y	DRC	Age	N/A	N/A	3	25	Straight-Line
		Standpipes	Standpipes	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Exercise Equipment	Park Equipment	Exercise equipment	Y	DRC	Condition	N/A	N/A	N/A	20	Straight-Line
	Playgrounds (play areas)	Playgrounds	Playgrounds	Y	DRC	Condition	1	N/A	3	30	Condition-Based
	Public Furniture & Fixtures	Benches, Tables & Picnic Sets	Furniture	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		Bins & Surrounds	Furniture	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Skate Parks	Barbeques	Barbeques	Y	DRC	Condition	3	N/A	3	10	Condition-Based
		Skate Parks	Skate Parks	Y	DRC	Condition	3	N/A	3	80	Condition-Based

Asset Group ¹	Asset Category ⁴	Asset Component ²	Asset Class ⁵	Recognised (Y/N) ⁶	Valuation Method		Condition Assessment		Revaluation Frequency (Years)	Adopted Asset Life	Depreciation Method
					Fair Value Method ⁷	If DRC Age-based or Cond-Based	Frequency (Years)	What % Condition Inspection Annually			
OTHER INFRASTRUCTURE	Other Infrastructure	Bus Stops	Bus Stops	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		Fences & Bollards	Fences & Bollards	Y	DRC	Age	N/A	N/A	N/A	50	Straight Line
		Parking Meters	Parking Meters	Y	DRC	Age	N/A	N/A	N/A	15	Straight Line
		Guard Rails	Guard Rails	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		Bus Shelters	Bus Shelters	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		Railway	Railway	Y	DRC	Age	N/A	N/A	N/A	100	Straight Line
		Signs	Signs	y	DRC	Age	N/A	N/A	N/A	20	Straight Line
Marine Structures		Pontoons, Wharves & Jetties	Pontoons, Wharves & Jetties	Y	DRC	Condition	5	N/A	5	80	Condition-Based

Asset Group ¹	Asset Category ⁴	Asset Component ²	Asset Class ⁵	Recognised (Y/N) ⁶	Valuation Method		Condition Assessment		Revaluation Frequency (Years)	Adopted Asset Life	Depreciation Method
					Fair Value Method ⁷	If DRC Age-based or Cond-Based	Frequency (Years)	What % Condition Inspection Annually			
Recreational, Leisure and Community	Sports Courts	Park Active Area	Sports Courts	Y	DRC	Condition	5	N/A	5	25 - 50	Condition-Based
	Sports Infrastructure (Scoreboards, goal posts)	Park Equipment	Sports Infrastructure	Y	DRC	Condition	5	N/A	5	20	Condition-Based
	Sports Lighting	Lighting Main	Sports Lighting	Y	DRC	Condition	3	N/A	3	30	Straight Line
	Roads Unsealed Roads (Inc. internal roads and Unsealed runways and Car Parks)	Surface Main - Asphalt	Surface	Y	DRC	Condition	4	N/A	4	20	Condition-Based
		Surface Main- Spray Seals	Surface	Y	DRC	Condition	4	N/A	4	15	Condition-Based
		Pavement	Pavement	Y	DRC	Condition	4	N/A	4	80	Condition-Based
		Gravel Roads	Gravel Pavement	Y	DRC	Condition	2	N/A	4	15	Condition Based
		Shoulders	Shoulders	Y	DRC	Condition	4	N/A	4	15	Condition Based

Asset Group ¹	Asset Category ⁴	Asset Component ²	Asset Class ⁵	Recognised (Y/N) ⁶	Valuation Method		Condition Assessment		Revaluation Frequency (Years)	Adopted Asset Life	Depreciation Method
					Fair Value Method ⁷	If DRC Age-based or Cond-Based	Frequency (Years)	What % Condition Inspection Annually			
ROADS	Roads	Earth Roads	Earth Roads	N	N/A	N/A	N/A	N/A	N/A	N/A	Not Depreciated
	Formation	Formation	Formation	Y	N/A	N/A	N/A	N/A	N/A	Indefinite	Not Depreciated
KERB & CHANNEL	Roads	Kerb and Channel – All Types	Kerb & Channel	Y	DRC	Condition	4	N/A	4	50	Condition-Based
STORMWATER & FLOOD CONTROL	Drainage	Stormwater Pipes	Pipes and Culverts ⁹	Y	DRC	Age	N/A	N/A	5	80	Straight-Line