

Asset Capitalisation



Council Policy Number	144
Date adopted	23 June 2020
Scheduled for review	June 2023

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	<p>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.</p> <p>In general, expenditure that creates a new asset or upgrades / enhances an existing asset is treated as capital expenditure (subject to asset recognition rules).</p> <p>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.</p> <p>Asset disposals that are not related to renewal works are dealt with under the Council Asset Rationalisation and Disposal Policy.</p>
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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 data-bbox="528 479 1445 658">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 data-bbox="528 676 1445 741">a) Renewal is expenditure on an existing asset or replacing an existing asset that returns the service capability to its original capacity.</p> <p data-bbox="604 754 1445 875">(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 data-bbox="528 891 1445 1048">b) Upgrade is expenditure that –</p> <ul style="list-style-type: none"> <li data-bbox="604 938 1445 996">i. enhances an existing asset to provide a higher level of service; or <li data-bbox="604 1014 1445 1048">ii. increases the life of the asset beyond its original life. <p data-bbox="528 1064 1445 1214">(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 data-bbox="528 1229 1445 1321">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 data-bbox="528 1337 1445 1487">(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 data-bbox="528 1503 1445 1568">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 Leased, Licenced or Agreed (Council Lessee/Licensee)	Asset Commercially Leased (Council Lessor)	Other (non-commercial) Lease (Council Lessor)	DELWP 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 Leased, Licenced or Agreed (Council Lessee/Licensee)	Asset Commercially Leased (Council Lessor)	Other Lease (Council Lessor)	DELWP 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 Leased, Licenced or Agreed (Council Lessee/Licensee)	Asset Commercially Leased (Council Lessor)	Other Lease (Council Lessor)	DELWP 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 (peppercorn 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 1989, Section 131 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 Responsible officer

Three years

Asset Manager and Finance Manager

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.

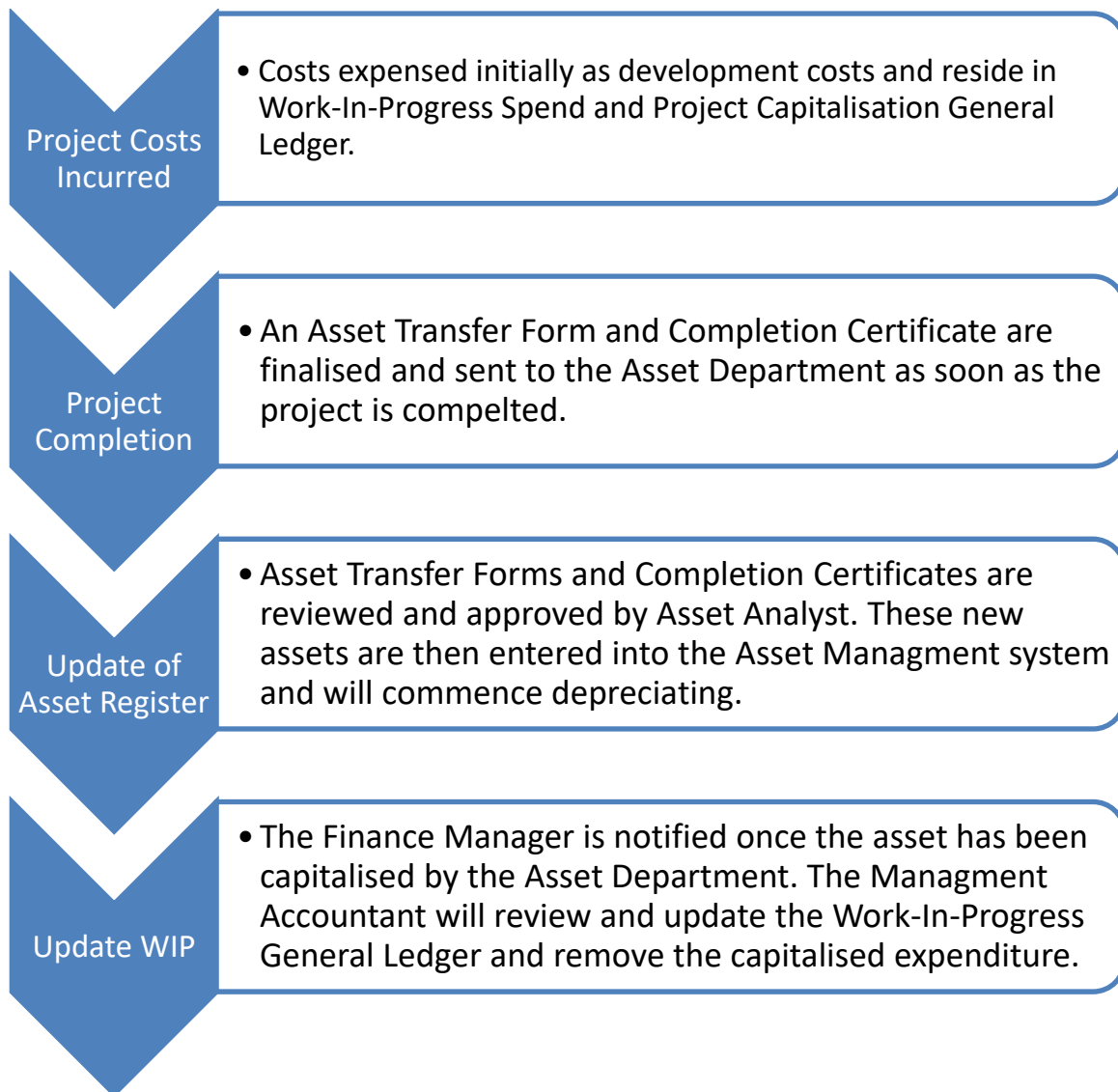
11. Approval History

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')

Chief Executive Officer: 

Date: 3/3/2021

Appendix A – Work-in-Progress Review Process



Appendix B – Asset Capitalisation Thresholds – by Asset Class

Asset Group	Asset Class	Asset Component	Capitalised	Depreciated	Capitalisation Threshold	
					\$	Measure
Roads	Sealed Roads (Inc. aerodrome runways, Taxiways, internal roads and Service roads and Car Parks)	Wearing Course-Asphalt	Y	Y	N/A	>25% of segment area
		Wearing Course-Spray Seal				
		Pavement (Incl. E/Works & Formation)				>100m2
	Gravel Roads (Inc. internal roads and Unsealed runways and Car Parks)	Shoulders	Y	Y	Entire segment	N/A
		Wearing Course - Gravel Roads	Y	Y	N/A	>100 tonnes rock per segment
	Earth Roads	Wearing Course - Earth Roads	Y	N	New works	N/A
Footpaths & Cycleways	Footpath (inc Shared Paths)	Asphalt	Y	Y	10,000	>50m2
		Concrete				
		Gravel				
		Paving				
Kerb & Channel	Kerb & Channel	Y	Y	N/A	>10m segment	
Bridges	Bridges	Deck	Y	Y	20,000	N/A
		Sub-Structure				
		Abutments				
		Foundations				
	Major Culverts	Major Culvert	Y	Y	10,000	
	Boardwalks, Jetties, Moorings	Deck	Y	Y	10,000	
		Sub-Structure				
		Abutments				
Foundations						

Asset Group	Asset Class	Asset Component	Capitalised	Depreciated	Capitalisation Threshold	
					\$	Measure
Stormwater & Flood Control	Pipes	Pipes	Y	Y	10,000	N/A
	Minor Culverts	Minor Culverts				
	Pits & Structures	Drainage Pits inc End Walls, GPT, Litter Traps, Inlets, Outlets and Headwalls			Full replacement cost	
	Channels & Open Stormwater Drains	Lined				
		Unlined				
	Basins, Dams & Wetlands	Basins, Dams & Wetlands			10,000	
	Retaining Walls & Levee Banks	Retaining Wall				
		Levee Bank				
	Pump	Pump Motor			10,000	
		Pump Well				
Pump Switchboard and Electrics						
Irrigation	Irrigation	Bores	Y	Y	10,000	N/A
		Tanks				
		Irrigation Pumps				
		Switchboards				
		Sprinkler Systems				
Buildings & Structures	Facility	Facility as a whole	Y	Y	10,000	N/A
		Structure Sub Floor	N	N		
		Structure Floor				
		Structure Walls				
		Structure Roof				
		Structure Ceiling				
		Finish Internal Surface - Ceiling				
		Finish Internal Surface - Walls				
		Finish Internal Surface - Covering				
		Finish External Wall Finish				
		Finish Roof - Cladding				
		Mechanical				
		Fit out				
		Services other than Mechanical				

Asset Group	Asset Class	Asset Component	Capitalised	Depreciated	Capitalisation Threshold	
					\$	Measure
Swimming Pools	Pool Shell & Equipment	Pool Shell	Y	Y	10,000	N/A
		Chemical Treatment Tanks	N	Y	10,000	N/A
		Reticulation Pumps				
		Boilers				
		Safety Showers				
		Solar Heating Systems				
		Water Reticulation Systems				
		Power Supply and Switchboards				
		Pool Lighting				
		Slides				
		Diving Boards				
		Pool Covers				
Vacuums						
Open Space & Recreation Assets	Playing Surfaces	Ovals	Y	Y	Full replacement cost of entire surface, like for like	N/A
		Golf Course Greens				
		Running Tracks				
		Skate Parks				
		Courts				
	Sports Lighting & Electrical	Poles			10,000	
		Lights				
		Switchboards/Controllers				
		Transformers				
		Electrical Scoreboards				
Scoreboards						
Playgrounds	Playgrounds	Swing	Y	Y	10,000	N/A
		Slides				
		Combination Unit				
		Softfall				
		Spring Rocker				
Fencing & Bollards	Fencing & Bollards	Fencing & Bollards	Y	Y	10,000	N/A

Asset Group	Asset Class	Asset Component	Capitalised	Depreciated	Capitalisation Threshold	
					\$	Measure
Other Road Elements	Parking Meters	Parking Meter	N	N	Full replacement cost of existing meter or management system	N/A
	Signs	Signs			N/A	
	Street and Public Lighting	Street and Public Lighting			Full replacement cost	
	Traffic Control Lights	Traffic Control Lights				
Marine Vessels	Marine Vessels	Superstructure	Y	Y	Full replacement cost	>25% of cost
		Decking				
		Paddle Boxes				
		Hull				>10% of cost
		Machinery and Equipment				>25% of cost
Artworks, Monuments, Artefacts and Exhibits	Artworks	Paintings	N	N	N/A	N/A
		Town Entrance Features				
		Sculptures				
	Monuments	Statues				
		Fountains				
		Memorials				
Land	Land	Land	Y	N	At cost - new assets	N/A
	Land Under Roads	Land Under Roads	Y	N	Fair value - impaired	N/A
	Land Improvements	Land Improvements	Y	Y	5,000	N/A
Intangible Assets	Water rights	Water rights	N	N	50,000	N/A