

Asset capitalisation

Policy

Approved by Council: 17 August 2022

To set appropriate thresholds for the capitalisation (recognition) of assets.

Background

Accounting standards (particularly AASB 116 – Property, Plant and Equipment) require a distinction to be made between expenditure that is consumed immediately in operations and expenditure on physical assets that will provide service over more than one financial year.

The recording of capital expenditure means that it is recognised in Council’s balance sheet as an asset. This process is referred to as capitalisation.

Importantly, capital expenditure is divided between that which is renewing or replacing an existing asset and the creation of a new additional asset. This distinction provides information on whether Council is maintaining or running down its asset ‘stock’ and the extent to which services can be maintained over the long term.

Definitions

Asset - An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity and these benefits can be measured reliably. Assets include physical assets which provide future economic benefits for more than 12 months. Any item which has a life of less than 12 months is expensed under a maintenance or operational budget and cannot be classed as an Asset.

Capital expenditure - Capital expenditure is relatively large (material) expenditure, which has benefits (service potential), expected to last for more than 12 months. In addition to new assets capital expenditure includes renewal/replacement and expansion/upgrade of existing assets.

Capital new – is expenditure that creates a new asset that provides a service that does not currently exist.

Capital renewal/replacement - is expenditure on an existing asset, which restores the service potential and extends the life of the asset beyond that which it had originally.

Capital upgrade/expansion - is expenditure, which enhances an existing asset to provide a higher level of service. It will increase operating and maintenance expenditure, particularly depreciation, in the future because of the increase in the Council’s asset base, e.g., replacing water pipes with pipes of a greater capacity, building extension etc.

Fair value - the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Operating expenditure - is recurrent expenditure such as power, fuel, telephone, employee costs, materials, cleaning, minor equipment, overheads, maintenance and depreciation. These costs are the day to day expenses associated with providing the service during a year of operations. When compared to the income over the same period a surplus or deficit can be calculated.

Factors for asset determination

Measurement at recognition

In accordance with AASB 116, the cost of an item of property, plant and equipment is recognized as an asset if, and only if:

1. It is probable that future economic benefits associated with the item will flow to the entity; and
2. The cost of the item can be measured reliably.

Recognition cost

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

1. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
2. 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.
3. 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.

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

Activity	Recurrent expenditure	Capital expenditure
All activities prior to decision made to proceed with investment including: <ul style="list-style-type: none">• Strategic planning reports• Project scoping and investigation, valuation reports, planning approvals	X	
All activities following decision made to proceed with investment including: <ul style="list-style-type: none">• Survey and design; Professional fees• Site preparation; Construction; Contract payments• Council direct costs, wages, salaries, plant hire, materials, on-costs• Overheads• Supervision• Transport, installation, assembly and testing• Project Management• Future dismantling and removing item and site restoration (where applicable)		X

Materiality

Information is material if its omission or misstatement could influence the decisions of users made on the basis of the financial statements.

In the context of materiality it is not necessary to recognise every non-current asset in the balance sheet. 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 simpler to expense it. Setting the 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, against more than one financial year so that revenues and expenses are matched appropriately.

Asset revaluation

AASB 116 requires assets to be regularly revalued at their fair value, less any subsequent accumulated depreciation and impairment losses. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued. Council revalues all infrastructure, land and building assets on a five year cycle. Asset values are indexed annually between each revaluation.

Useful lives

Asset useful lives are reviewed annually and subject to periodic independent review. Assets are recognised at the maximum indicated useful life.

Policy statement

This policy applies to all physical assets of Rous County Council but does not apply to cash or inventory.

Minor assets

Minor assets are those items acquired for a cost less than the threshold for that applicable category. The acquisition of minor assets is treated as an expense. Minor assets with a cost greater than \$200 but less than \$1,000 are recorded in an Attractive Assets Register and are subject to audit.

Capital expenditure thresholds

Council's capital expenditure thresholds for assets are outlined as follows:

Buildings and other structures

Componentisation of buildings and useful lives comprise:

- Roof (useful life – 20-60yrs)
- Fire services (such as sprinkler systems) (useful life 30-65yrs)
- Transportation services (such as lifts and escalators) (useful life 25yrs)
- Mechanical services (such as air-conditioning, HWS) (useful life 10-30yrs)
- Floor coverings (such as carpets, tiles, etc) (useful life 10-30yrs)
- Structural shell of the building (useful life 65-100yrs)

Work activity			
Operations	Maintenance and repair	Capital renewal	Capital new
<ul style="list-style-type: none"> • Service delivery and property management including condition assessment, defect inspection and facility management systems operations • Utility service costs • Cleaning 	<ul style="list-style-type: none"> • Reactive maintenance and repair • Programmed maintenance (painting, structural repairs, replacing windows, fencing, guttering, drains, etc) • Component replacement (floors, roof, carpets, air/conditioning plant , etc) <\$1,000 	<ul style="list-style-type: none"> • Replacement of whole building asset with same standard • Component renewal/replace (floors, roof, air conditioning, rewiring, fit out etc) • >\$1,000 	<ul style="list-style-type: none"> • New assets • Fit out • Upgrade assets and extensions (providing a higher level of service) • >\$1,000

Notes on capital renewal

Building renewal/replacement (complete asset) is recognised as a renewed asset and the old asset retired from the asset stock.

Building component renewal (partial asset) is recognised by adding the component replacement cost (if > \$1,000) to the existing asset value and reviewing the remaining/useful life of the renewed asset to recognise any restored economic benefits to the entity. The Building as a whole asset will be revalued every 5 years in conjunction with all other building assets.

Other assets - fencing assets

Fencing assets are recognised at the following component level (each property):

- Fence by type (useful life 30-50 yrs)

Work activity			
Operations	Maintenance and repair	Capital renewal	Capital new
<ul style="list-style-type: none"> • Service delivery management including condition assessment, defect inspections and management systems 	<ul style="list-style-type: none"> • Reactive maintenance to fencing assets (fence repair, gate repair) • Programmed Maintenance (painting, etc) • Partial replacement • <\$1,000 	<ul style="list-style-type: none"> • Replacement of fence asset length with same standard • >\$1,000 	<ul style="list-style-type: none"> • New assets • Upgrade asset • >\$1,000

Fencing renewal (complete asset) is recognised as a new asset and the old asset retired from the asset stock.

Land

Land assets are recognised at the following component level (each property):

Work activity			
Operations	Maintenance and repair	Capital renewal	Capital new
<ul style="list-style-type: none"> • Service delivery management including condition assessment, defect inspection • Landscaping maintenance (inc. mowing, slashing, shrub clearing, etc.) 	<ul style="list-style-type: none"> • Reactive maintenance and repair (cleaning) • Programmed maintenance (cleaning, mowing, etc) 	N/A	<ul style="list-style-type: none"> • New assets >\$1,000

Water network and dam assets

Water network assets are recognised at the following asset level:

- Pipe length (pipe reach between pits/access points) (useful life 80-120 yrs)
- Pit/access point (useful life 60-80 yrs)
- Drainage structure (useful life 45 yrs)
- Dams/reservoirs (useful life 80-120 yrs)
- Bores (useful life 30-50 yrs)
- Pumps/telemetry (useful life 15-50 yrs)
- Meters (useful life 10-15 yrs)

- Facilities and other structures (individual assessment)

Work activity			
Operations	Maintenance and repair	Capital renewal	Capital new
<ul style="list-style-type: none"> • Service delivery management (including condition assessment, defect inspection and drainage management system) • Supervision • Clearing drains and pits • Street (kerb and gutter) sweeping • Utility costs 	<ul style="list-style-type: none"> • Reactive maintenance to drainage assets (pipe repair, pit repair and pit component replacement, drainage structure repair) • Reactive maintenance to wetlands assets (repair, component replacement, structural repair) • Programmed maintenance (painting) • Replacement of partial pipe length <\$5,000 • Partial renewal/replacement of lined and open drains, wetlands and flood control dams <\$5,000 • Partial renewal of other asset • Desilting dams 	<ul style="list-style-type: none"> • Replacement of asset length of drainage pipeline at same standard • Renewal/relining of asset length of drainage pipeline at same standard • Replacement of complete pit/structure/ pump • Replacement of partial pipe length • Partial renewal/ replacement of lined and open drains, wetlands and flood control dams • >\$5,000 	<ul style="list-style-type: none"> • New assets • Upgrade asset • Replacement with higher standard • >\$5,000

Pit/access point/structure/ wetlands, pumps, bores, pipeline renewal (complete asset) is recognised as a new asset and the old asset retired from the asset stock.

Pipeline low cost renewal (relining, etc) (complete asset) is recognised by adding the renewal cost to the existing asset and reviewing the remaining/ useful life of the renewed asset to recognise the restored economic benefits to the entity.

Pipeline renewal (partial asset >\$5,000) is recognised as a new asset and the old asset dimensions modified and revalued to recognise the partial renewal.

Partial renewal/replacement (>\$5,000) of water and dam assets (component renewal) is recognised by adding the renewal/replacement cost to the existing asset value and reviewing the remaining/useful life of the renewed asset to recognise the restored economic benefits to the entity.

Flood mitigation infrastructure

Drainage assets are recognised at the following asset level:

- Pipe length (pipe reach between pits/access points) (useful life 80-100 yrs)
- Canal/Drain/Outlet - Concrete (useful life 100 yrs)
- Canal/Drain/Outlet - Earth (infinite)
- Levees – Concrete (useful life 100 yrs)
- Pumps (useful life 15-50 yrs)
- Lifting Gear (useful life 10-30 yrs)
- Floodgates (useful life 10-20 yrs)

Work activity			
Operations	Maintenance and repair	Capital renewal	Capital new
<ul style="list-style-type: none"> • Service delivery management (including condition assessment, defect inspection and drainage management system) • Supervision • Clearing drains and pits • Utility costs 	<ul style="list-style-type: none"> • Reactive maintenance to drainage assets (pipe repair, pit repair and pit component replacement, drainage structure repair) • Reactive maintenance to wetlands assets (repair, component replacement, structural repair) • Programmed maintenance (painting) • Replacement of partial pipe length <\$1,000 • Partial renewal/ replacement of lined and open drains, canals, wetlands and flood control assets <\$1,000 • Partial renewal of other asset 	<ul style="list-style-type: none"> • Replacement of asset length of drainage pipeline at same standard • Renewal/relining of asset length of drainage pipeline at same standard • Replacement of complete pit/structure/ pump • Replacement of partial pipe length >\$1,000 • Partial renewal/ replacement of lined and open drains, wetlands and flood control assets >\$1,000 	<ul style="list-style-type: none"> • New assets • Upgrade asset • Replacement with higher standard • >\$1,000

Drainage pit/access point/structure/ wetlands, pumps, pipeline renewal (complete asset) is recognised as a new asset and the old asset retired from the asset stock.

Partial renewal/replacement (>\$1,000) of open drains, wetlands and flood control assets (component renewal) is recognised by adding the renewal/replacement cost to the existing asset value and reviewing the remaining/useful life of the renewed asset to recognise the restored economic benefits to the entity.

Buffer zones, parks and recreation assets, playgrounds

Parks and recreation assets are recognised at the following level:

- Grassed area (useful life 5 yrs)
- Landscaped area/garden (useful life 20-40 yrs)
- Playground unit (useful life 40 yrs)
- Buffer zones (useful life – infinite)
- Road, footpath, kerb and gutter, drainage assets are recognised under their respective asset class.

Work activity			
Operations	Maintenance and repair	Capital renewal	Capital new
<ul style="list-style-type: none"> • Service delivery management including condition assessment, defect inspection and management systems • Supervision • Park mowing, cleaning, tree/shrub trimming, gardening, weed control, litter control, leaf control, etc • Utility costs 	<ul style="list-style-type: none"> • Reactive maintenance to parks and recreation assets (repairs to facilities and structures) • Programmed maintenance (replanting garden beds, painting seating, facilities and structures) • Replacing facilities and structures • Partial replacement of playgrounds • <\$1,000 	<ul style="list-style-type: none"> • Replacement of whole playground • Replacement of whole surface • >\$1,000 	<ul style="list-style-type: none"> • New assets • Upgrade assets • >\$1,000

New grassed/landscaped areas are recognised and depreciated over 5 years and not revalued. All replacements and renewals are expensed.

Playground renewal (complete asset) is recognised as a new asset and the old asset retired from the asset stock.

Buffer zones include natural assets in catchment areas that are valued at replacement cost at the seedling stage of growth.

Plant & equipment and furniture & fittings assets

Plant & equipment and furniture & fittings assets are recognised at the following level (each plant item):

- Office equipment (useful life 2-10 yrs)
- Office furniture (useful life 10-20 yrs)
- Motor vehicles (useful life 2-5 yrs)
- Other plant and equipment (useful life 5-15 yrs)
- Fixtures and fittings (useful life 10-20 yrs)

Work activity			
Operations	Maintenance and repair	Capital renewal	Capital new
<ul style="list-style-type: none"> • Service delivery management including condition assessment and management systems • Supervision • Fuel and operator costs 	<ul style="list-style-type: none"> • Reactive maintenance to plant and equipment assets • Programmed servicing of plant and equipment • Replacement of major components (engine, transmission, etc) • Upgrade asset (adding air conditioning, etc) • Replacement of furniture and fittings • Purchase and replacement of items • <\$1,000 	<ul style="list-style-type: none"> • Replacement of plant and equipment item with same standard • >\$1,000 	<ul style="list-style-type: none"> • New assets • >\$1,000

Plant and equipment renewal (complete asset) is recognised as a new asset and the old asset retired from the asset stock.

Plant items with acquisition cost greater than \$200 but less than \$1,000 are expensed on acquisition and recorded in an Attractive Items Register.

The General Manager and managers have responsibility for ensuring that acquisition and capitalisation of all assets is in accordance with legislation, accounting standards and Council policies.

The Responsible Accounting Officer is responsible for implementing the 'Asset capitalisation' policy and ensuring that asset acquisitions are conducted in accordance with the policy.

Contact officer

Finance Manager

Related documents

Policies

Asset Management Policy
Procurement Policy

Procedures

Asset Management Plan
Asset Management Process – Asset Addition & Disposals
Asset Addition & Disposal – Planning SOP
Asset Addition & Disposal – Finance SOP

Legislation

Local Government Act 1993 (NSW).

File No.: F20/324-01		Next review date: June 2025	
Version	Purpose and description	Date adopted by Council	Resolution No
1.0	To set appropriate thresholds for the capitalisation (recognition) of assets.	21 July 2017	55/17
2.0	Updated to provide a definition for new assets	17 August 2022	53/22
2.1	Policy transferred to a new template	7 February 2025	