# Policy F8 – Asset Capitalisation

## 1. Policy Intention

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

## 2. Policy

This policy is to provide staff involved in budgeting and expenditure decisions clear guidance when classifying expenditure in the accounting system. It establishes the criteria at the point of recognition of an asset. This policy applies to all physical assets of the Shire. This policy does not apply to cash or inventory.

## 3. Background

Accounting standards 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.

The distinction is a critical component in the determination of financial sustainability as recorded through the income statement and in calculating the cost of services, and the setting of prices and taxes. For local government this process serves to ensure intergenerational equity; that is one generation of ratepayer is not subsidising another.

## 4. Definitions

### 4.1 Definition of an 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. 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.

An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

### 4.2 Definition of Capital and Operating Expenditure

Operating expenditure is recurrent expenditure such as power, fuel, staff, materials, cleaning, minor equipment, on-costs, 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.

(a) Maintenance expenditure is a component of operating 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 is normally relatively low cost compared to the asset value. Maintenance expenditure includes reactive maintenance and repair, (pothole patching, repairs to broken fixtures, etc), or planned maintenance (maintenance and repair to predetermined schedules).

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.

(a) Capital renewal is expenditure on an existing asset, which restores the service potential and extends the life of the asset beyond that which it had originally. As it extends the life of the asset any income generated from it will likewise be extended. 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.

(b) Capital upgrade/expansion is expenditure, which enhances an existing asset to provide a higher level of service. Upgrade expenditure is discretionary and may not result in additional revenue unless direct user charges apply. It will 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.

## 5. Recognition

### 5.1 Measurement at Recognition

In accordance with Australian Accounting Standard AASB 116 (AASB116):

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

### 5.2 Recognition Cost

*AASB116* defines the cost an item of property, plant and equipment as comprising:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- 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; and
- 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:

- costs of opening a new facility;
- costs of introducing a new product or service (including advertising); or
- administration and other general overhead costs.

## 6. 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. 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.

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.

## 7. Capital Expenditure Thresholds

The Shire's capital expenditure thresholds for assets are contained in the following tables.

| **Asset Category** | **Renewal** | **New / Upgrade** | **Expenditure Threshold** |
|---|---|---|---|
| Road Seal | Resurfacing at the same standard, including preparation works. | • New assets<br>• Road upgrade – road widening, unsealed to sealed, improved design capacity, incl. surface reconstruction | $5000 |
| Road Pavement | Pavement replacement/ renewal of asset with same standard | • New assets<br>• Road upgrade – road widening, improved design capacity | $5000 |
| Road Earthworks and Formation | | • Initial formation of the land, in preparation for the construction of the pavement and seal assets above | $5000 (not depreciated) |
| Unsealed Roads | | • Re-sheet | $5000 |
| Street Lighting | • Replacement of whole lighting structure<br>• Replacement of components | • New assets<br>• Upgrade assets<br>• Expansion of lighting structures. | $5000 |
| Footpath Assets | • Resurfacing with same standard (whole asset)<br>• Replacement of whole asset length of paved footpath at same standard<br>• Concrete to paved | • New assets<br>• Footpath upgrade - replacement with higher standard (Widening, Gravel to Paved, Improved design capacity) | $5000 |
| Kerb and Gutter | • Replacement of whole asset length of kerb and gutter at same standard | • New assets<br>• Upgrade asset | $5000 |

| Asset Category | Renewal | New / Upgrade | Expenditure Threshold |
|---|---|---|---|
| Medians | • Replacement of whole asset length of median at same standard | • New assets<br>• Upgrade asset | $5000 |
| Roundabouts | • Replacement of whole roundabout at same standard | • New assets<br>• Upgrade asset | $5000 |
| Carparks | • Pavement replacement/ renewal with same standard<br>• Resurfacing | • New assets (including unsealed, e.g. gravel)<br>• Upgrade asset | $5000 |
| Traffic Bridges | • Replacement of bridge with same standard<br>• Replacement of components (deck, beams, guard rails, with same standard, etc) | • New assets<br>• Upgrade asset (strengthening, widening, etc) | $5000 |
| Pedestrian Bridges | • Replacement of foot bridge with same standard<br>• Replacement of components (deck, beams, guard rails etc with same standard, etc) | • New assets<br>• Upgrade asset (strengthening, widening, etc) | $5000 |
| Boardwalks | • Replacement of boardwalk with same standard<br>• Replacement of components (deck, beams, guard rails, with same standard, etc) | • New assets<br>• Upgrade asset (strengthening, widening, etc) | $5000 |
| Stormwater Drainage Pits / Pipes / structures | • Replacement of asset length of drainage pipeline at same standard<br>• Renewal/relining of asset length of drainage pipeline at same standard<br>• Replacement of complete pit/ structure/ pump<br>• Replacement of partial pipe length | • New assets<br>• Upgrade asset<br>• Replacement with higher standard | $5000 |

| Asset Category | Renewal | New / Upgrade | Expenditure Threshold |
|---|---|---|---|
| Building Structure | • Replacement of whole envelope asset with same standard<br>• Component replacement (windows, walls, structural repair etc) | • New assets<br>• Upgrade assets and extensions (providing a higher level of service) | $5000 |
| Building Roof | • Replacement of whole roof asset with same standard<br>• Component replacement (roof, gutters, etc) | • New assets<br>• Upgrade assets and extensions (providing a higher level of service) | $5000 |
| Building Mechanical | • Replacement of whole Air conditioning asset with same standard<br>• Component replacement (Air conditioning, etc) | • New assets<br>• Upgrade assets and extensions (providing a higher level of service) | $5000 |
| Building Fit-out | • Replacement of whole fit-out asset with same standard<br>• Component replacement (lights, kitchens, laundry, bathroom, etc) | • New assets<br>• Fit out<br>• Upgrade assets and extensions (providing a higher level of service) | $5000 |
| Swimming Pools | • Relining/retiling of pool<br>• Replacing pool components (pumps, filters, electrical) | • New assets<br>• Upgrade assets | $5000 |
| Shade Structures | • Replacement of whole asset same standard | • New assets<br>• Upgrade assets | $5000 |
| Playgrounds | • Replacement of whole playground | • New assets<br>• Upgrade assets | $5000 |
| Sports Ovals and Open Space | • Replacement of whole pitch, court, lighting structure, irrigation system, etc<br>• Replacement of components<br>• Partial replacement of assets | • New assets<br>• Upgrade assets<br>• Extension of irrigation systems<br>• Expansion of lighting structures. | $5000 |
| Road and reserve furniture | | • New assets | $5000 |

| Asset Category | Renewal | New / Upgrade | Expenditure Threshold |
|---|---|---|---|
| Fencing | • Replacement of fence asset length with same standard | • New assets<br>• Upgrade asset | $5000 |
| Road and reserve signs | | • New assets<br>• Upgrade asset | $5000 |
| Other structures | • Replacement of whole asset with same standard | • New assets<br>• Upgrade asset | $5000 |
| Other assets | • Replacement of asset with same standard | • New assets<br>• Upgrade/expand asset<br>• Replace with higher standard | $5000 |
| Plant and equipment | • Replacement of asset with same standard | • New assets | $5000 |
| Furniture and equipment | • Replacement of asset with same standard | • New assets | $5000 |

| Policy Detail | | |
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| **Responsible Directorate** | Corporate Services | |
| **Responsible Department** | Governance and Strategy | |
| **Responsible Officer** | Manager Governance and Strategy | |
| **Next Policy Review / Schedule** | 2026 (3-yearly) | |
| **Council Adoption** | **Date / Resolution** | 30 August 2012 (OCM12/184) |
| **Amendment Record** | **Date / Resolution** | 27 June 2013 (OCM13/096) |
| | | 23 June 2023 (OCM22/070) |
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