

## ASSET CAPITALISATION POLICY

<b>Approval Level:</b>	EMT
<b>Policy Type:</b>	Organisation
<b>Approval Date:</b>	12/12/2023
<b>Review cycle:</b>	Four years
<b>Review Date:</b>	12/12/2027
<b>Responsible Officer:</b>	Manager Financial Strategy
<b>Owner:</b>	Financial Strategy
<b>Responsible Director:</b>	Corporate Performance
<b>Relevant Legislation/Authority:</b>	<i>Local Government Act 2020</i> Australian Accounting Standards Board (AASB) Standards
<b>DOCSETID:</b>	2641461

### PURPOSE

To provide consistent guidelines, in accordance with Australian Accounting Standards, Local Government Victoria guidelines and best practice asset management, regarding which City of Greater Bendigo (City) assets are to be capitalised (as opposed to expensed).

The policy:

- States what City 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 the City applies to its assets.

The policy is also set to provide staff involved in budgeting and expenditure decisions clear guidance when classifying expenditure in the relevant finance system. It establishes the capitalisation criteria at the point of recognition of an asset.

### 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 the City include roads, bridges, pathways, drains, parks, buildings and other items such as plant and equipment. Assets help deliver services offered by the City to the community.

The recording of expenditure as an asset means that it is recorded in the City's balance sheet and the details are entered into the corporate asset register. This process is often referred to as capitalisation. Such expenditure on assets is referred to as capital expenditure.

Importantly, capital expenditure is classified between renewal, upgrade, expansion and new expenditure. This distinction provides information to assist the organisation to determine whether it is maintaining assets at a sustainable level long term.

## SCOPE

This policy only applies to non-current physical assets. Accounting standards (particularly AASB 116 – Property, Plant & Equipment) requires a distinction to be made between expenditure that is consumed immediately in operations (or within one financial year) and expenditure on a physical asset that will provide service over more than one financial year, normally many years.

Typical non-current physical assets managed by the City includes infrastructure, land, buildings, plant and equipment. The City also recognise the Art Gallery collection as a non-current physical asset.

## DEFINITIONS

**Asset Recognition 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.

**A Non-Current Asset** is any asset that 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** is the database utilised to contain physical, technical, financial and service level information for each asset. Spatial representation of assets is recorded through GIS software.

**Capital Expenditure** is the expenditure used for acquiring or maintaining non-current physical assets.

**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 of this policy, including expenditure on assets that are not owned by the City .

**Works in Progress** is the total value of materials and labour for unfinished projects which will result in Council recognising a non-current physical asset upon completion.

## PRINCIPLES

The policy will provide clear direction to City officers and Council on which assets are to be capitalised in line with Australian Accounting Standards, Local Government Victoria guidelines and best practice asset management.

## **POLICY**

### ***Capitalisation and Revaluation***

Capitalisation rules relate to the treatment of asset values recognised in the current financial year, that is, whether they are capitalised or expensed.

It should be noted that when the asset group is re-valued, the net effect of (expensed) maintenance work may be reflected in the asset condition, and hence in the new written-down value assigned to the asset.

### ***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 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.

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

Recurrent Expenditure	Capital Expenditure
<ul style="list-style-type: none"> <li>• Strategic planning reports</li> <li>• Project scoping and investigation, valuation reports, early planning approvals</li> </ul>	<ul style="list-style-type: none"> <li>• Site preparation</li> <li>• Traffic Management</li> <li>• Construction</li> <li>• Transport, installation, assembly and testing</li> <li>• Supervision</li> <li>• Project Management</li> <li>• Contract payments</li> <li>• Council direct costs, wages, salaries, plant hire, materials, on-costs, traffic management</li> <li>• Overheads relatable to the project</li> <li>• Future dismantling and removing item and site restoration (where applicable)</li> </ul>

### **Materiality**

Accounting Standards outline 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.

Expenditure may still be capitalised on items that are individually immaterial, however are significant when considered as a group of assets, such as residential bins.

The purpose of setting capital expenditure 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.

These thresholds are applied to the overall cost of the capital projects major component. For example, a minor road construction job may cost \$15,000, however this can include a number of different components such as kerb and channel, drainage and footpath works. This may result in each asset component falling below its relevant threshold. However, the overall cost of the project exceeds the capitalisation threshold for the major component of the job all components of the job will be capitalised.

A Summary of the Capitalisation Thresholds is listed in [Table 1](#).

Assets or components may be capitalised when their value or expenditure is less than Council's asset capitalisation threshold, if the asset or component is deemed to be of importance or value for asset management purposes.

All expenditure above the asset capitalisation threshold will be capitalised.

### **Minor Equipment**

It is not necessary to recognise and capitalise every potential non-current asset. This may include expenditure of items that are capital in nature and will have a useful life of greater than 12 months – but where the value is minor will not affect the economic decisions of the City if not capitalised. For example, items such as power tools, hand tools, laptops and monitors are considered immaterial and are not capitalised.

A number of minor equipment items are considered to be portable and attractive assets which is defined as those assets which by their nature are easily transported out of the City or may be subject to the temptation of theft or misappropriation, irrespective of value. These types of items are governed by a Portable and Attractive Assets policy.

### **Work In-Progress**

Work-in-progress will 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 complete the capitalisation checklist as outlined in the project management framework document and provide the appropriate information to the financial accounting team. This ensures development costs ready to be capitalised commence with an accurate useful life.

### **Capital Projects with Multiple Asset Categories**

For capital projects which include multiple asset Categories or Components the capital expense for each Asset Category or Asset Component needs to be separated out in order to apply the asset recognition rules within this Asset Capitalisation Policy.

The project management framework details what is required through the close out phase of a project, including the completion of the capitalisation checklist.

## **ROLES AND RESPONSIBILITIES**

The following key roles, positions and groups have defined functions as follows:

#### **Council / City:**

Responsible for:

- Stewardship of community services and associated sustainment of infrastructure assets; and
- Providing resources for policy implementation.

#### **Manager Engineering:**

Responsible for coordination of:

- Managing and keeping the corporate Asset Management System up to date;
- Coordinating collection of asset inventory and condition data.
- Reports, details and responses to enquiries supporting External Audit and related Annual Financial Statement processes.

#### **Asset Managers:**

Responsible for:

- Assisting with the Collection of asset inventory and condition data.

### **Project Managers:**

Responsible for:

- Providing the level of detail required to ensure capital expenditure is capitalised against the correct council asset category/ component (i.e., road, drainage, footpath).

### **Manager Financial Strategy:**

Responsible for coordination of:

- Corporate asset capitalisation process;
- Managing and keeping the corporate Finance System up to date; and
- Reporting assets within the financial statements, in line with LGV guidance and Australian Accounting Standards.
- Initial point of contact for engagement with external auditors

## **RELATED DOCUMENTS**

Employees are encouraged to access the related internal documents which are available on the intranet and/or external resources which are available as per the below.

These include:

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

- Asset Plan 2022-2032
- Asset Management Strategy
- Asset Valuation and Revaluation Policy
- Portable and Attractive Assets Policy

Further information or advice on this policy should be directed to Financial Strategy

## **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 this, such a change may be made administratively. Examples include a change to the name of a Business Unit, 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 made through consultation with the staff Consultative Committee and with the approval of EMT or where required, resolution of Council.

## **DOCUMENT HISTORY**

<b>Date Approved</b>	<b>Responsible Officer</b>	<b>Unit</b>	<b>Change Type</b>	<b>Version</b>	<b>Next Review Date</b>
May, 2014	Manager Finance	Finance	Original	1.10	May, 2017
Nov., 2017	Manager Financial Strategy	Financial Strategy	Review (significant)	2.00	Sept., 2021

<i>May, 2022</i>	<i>AH</i>	<i>Financial Strategy</i>	<i>Minor / administrative (per internal audit recommendation)</i>	<i>2.1</i>	<i>July 2022</i>
<i>Dec, 2023</i>	<i>Manager Finance</i>	<i>Financial Strategy</i>	<i>Review</i>	<i>3.00</i>	<i>Dec, 2027</i>



**TABLE 1: ASSET HIERARCHY WITH CAPITALISATION THRESHOLDS - SUMMARY**

Asset Group (Asset Plan)	Asset Category	Asset Component	Asset Class (For Finance)	Capitalised	Depreciated	Capitalisation Threshold
						\$
AQUATIC FACILITIES	Swimming Pools (Excl. Buildings & structures, drainage networks and carparks)	Pool Structure (Shell)	Buildings	Y	Y	\$20,000
		Pool Pump & Water Treatment Systems	Buildings	Y	Y	\$5,000
		Water Slides	Buildings	Y	Y	\$5,000
BRIDGES & MAJOR CULVERTS	Bridges (Incl. footbridges & boardwalks)	Super-Structure	Bridges	Y	Y	\$10,000
		Sub-Structure		Y	Y	\$10,000
		Abutments		Y	Y	\$10,000
	Major Culverts	Super-Structure	Bridges	Y	Y	\$10,000
		Sub-Structure		Y	Y	\$10,000
		Endwalls/Wingwalls		Y	Y	\$10,000
CULTURAL OBJECTS & COLLECTIONS	Antique Objects & Collections	Antique Furniture	Antiques & Artworks	N	N	N/A
		Antique/Cultural Items	Antiques & Artworks	N	N	N/A
	Artworks	Internal Artworks	Antiques & Artworks	Y	N	\$0
		External Artworks	Antiques & Artworks	N	N	\$0
	Statues, Monuments & Fountains	Statues & Monuments	Monuments, Statues & Fountains	Y	Y	\$5,000
		Poppet Heads	Monuments, Statues & Fountains	Y	Y	\$10,000
		Fountains & Water Features	Monuments, Statues & Fountains	Y	Y	\$5,000



Asset Group (Asset Plan)	Asset Category	Asset Component	Asset Class (For Finance)	Capitalised	Depreciated	Capitalisation Threshold
						\$
<b>FLOOD MITIGATION/ WATER STORAGE</b>	<b>Flood Mitigation &amp; Water Storage</b>	<i>Retardation Basin &amp; Dam Walls</i>	<i>Drainage</i>	Y	Y	\$20,000
<b>PATHWAYS</b>	<b>Rigid Pathways</b>	<i>Concrete/Brick/Bluestone/ Pavers</i>	<i>Pathways</i>	Y	Y	\$5,000
	<b>Non-Rigid Pathways</b>	<i>Asphalt/Spray Sealed Pathways</i>	<i>Pathways</i>	Y	Y	\$5,000
		<i>Unsealed Pathways (&gt;50mm depth)</i>	<i>Pathways</i>	Y	Y	\$5,000
		<i>Miscellaneous Paved Areas</i>	<i>Pathways</i>	Y	Y	\$5,000
<b>PLANT &amp; EQUIPMENT</b>	<b>Plant and Equipment</b>	<i>Plant</i>	<i>Plant and Equipment</i>	Y	Y	\$2,000
		<i>Fleet &amp; Light Vehicles</i>	<i>Plant and Equipment</i>	Y	Y	\$2,000
		<i>Other Equipment</i>	<i>Plant and Equipment</i>	Y	Y	\$2,000
	<b>Furniture and Office Equipment</b>	<i>Furniture and Office Equipment</i>	<i>Office Equipment, Furniture &amp; Fittings</i>	Y	Y	\$2,000
		<i>Software (licensed)</i>	<i>Office Equipment, Furniture &amp; Fittings</i>	Y	Y	\$2,000
<b>PROPERTY, BUILDINGS &amp; STRUCTURES</b>	<b>Buildings</b> (Incl. buildings at airport, livestock exchange, landfill and aquatic facility sites)	<i>Building Structure</i>	<i>Buildings</i>	Y	Y	\$10,000
		<i>Roof</i>	<i>Buildings</i>	Y	Y	\$10,000
		<i>Building (Mechanical) Services</i>	<i>Buildings</i>	Y	Y	\$10,000
		<i>Fit Out</i>	<i>Buildings</i>	Y	Y	\$10,000
	<b>Structures</b> (incl. shade sails, obelisk, tanks & tank stands, scoreboards)	<i>Structures</i>	<i>Buildings</i>	Y	Y	\$5,000
	<b>Land</b>	<i>Land - Freehold</i>	<i>Land</i>	Y	N	\$0
		<i>Land - Controlled</i>	<i>Land</i>	Y	N	\$0

Asset Group (Asset Plan)	Asset Category	Asset Component	Asset Class (For Finance)	Capitalised	Depreciated	Capitalisation Threshold
						\$
		<i>Land Under Roads – Roads Pre 1/07/2008</i>	<i>Land</i>	N	N	N/A
		<i>Land Under Roads – Roads Post 1/07/2008</i>	<i>Land</i>	Y	N	\$0
		<i>Easements</i>	<i>Land</i>	N	N	N/A
RECREATION & OPEN SPACE )	Irrigation/ Water Supply	<i>Irrigation Systems</i>	<i>Land Improvements</i>	Y	Y	\$2,000
		<i>Stand Pipes</i>	<i>Public Furniture &amp; Fixtures</i>	Y	Y	\$2,000
	Landscaping (Incl. garden beds, trees, nature reserves and non-sporting surfaces)	<i>Miscellaneous Landscaping</i>	<i>Land Improvements</i>	N	N	N/A
	Lighting- Public & Street	<i>Miscellaneous Lighting</i>	<i>Public Furniture &amp; Fixtures</i>	Y	Y	\$5,000
		<i>Public Lighting (Including Security Lighting)</i>	<i>Public Furniture &amp; Fixtures</i>	Y	Y	\$5,000
		<i>Street Lighting - Heritage &amp; Decorative</i>	<i>Public Furniture &amp; Fixtures</i>	Y	Y	\$5,000
	Miscellaneous Land Improvements	<i>Fences &amp; Gates</i>	<i>Land Improvements</i>	N	N	N/A
		<i>Specialised Fencing Network</i>	<i>Land Improvements</i>	Y	N	\$20,000
		<i>Optic Fibre Cable</i>	<i>Land Improvements</i>	Y	Y	\$5,000
		<i>Other Land Improvements (incl. livestock exchange structures, electrical &amp; plumbing networks)</i>	<i>Land Improvements</i>	Y	Y	\$10,000
		<i>Retaining Walls</i>	<i>Land Improvements</i>	Y	Y	\$5,000
		<i>Wharves, Jetties &amp; Pontoons</i>	<i>Land Improvements</i>	Y	Y	\$5,000
	Play Spaces	<i>Play Spaces</i>	<i>Public Furniture &amp; Fixtures</i>	Y	Y	\$10,000

Asset Group (Asset Plan)	Asset Category	Asset Component	Asset Class (For Finance)	Capitalised	Depreciated	Capitalisation Threshold
						\$
		BMX Track	Land Improvements	Y	Y	\$10,000
		Skate Park	Land Improvements	Y	Y	\$10,000
	Public Furniture & Fixtures	Barbeques	Public Furniture & Fixtures	Y	Y	\$5,000
		Benches, Tables & Picnic Sets	Public Furniture & Fixtures	Y	Y	\$2,000
		Bins - Residential	Public Furniture & Fixtures	Y	Y	\$0
		Bins & Surrounds	Public Furniture & Fixtures	Y	Y	\$2,000
		Bus Shelters	Public Furniture & Fixtures	Y	Y	\$5,000
		Christmas Decorations	Public Furniture & Fixtures	N	N	N/A
		Guardrailing	Public Furniture & Fixtures	Y	Y	\$5,000
		Signs - Township & Boundary	Public Furniture & Fixtures	N	N	N/A
		Traffic Calming Devices	Public Furniture & Fixtures	N	N	N/A
		Drinking Fountains	Public Furniture & Fixtures	Y	Y	\$5,000
		Traffic Lights/Signals	Public Furniture & Fixtures	Y	Y	\$5,000
	Sports Fields & Courts	Playing Surface (Grassed)	Land Improvements	Y	Y	\$20,000
		Playing Surface (Synthetic)	Land Improvements	Y	Y	\$20,000
		Playing Surface (Sealed)	Land Improvements	Y	Y	\$20,000
		Spectator Areas – Concrete & Sealed	Land Improvements	Y	Y	\$10,000
		Sports Lighting	Public Furniture & Fixtures	Y	Y	\$10,000
SEALED ROADS	Sealed Roads (Incl. airport runways & taxiways, roads at livestock exchange, on-road parking and bike lanes)	Wearing Course - Asphalt	Sealed Roads	Y	Y	\$10,000
		Wearing Course - Spray Seal	Sealed Roads	Y	Y	\$10,000
		Pavement	Sealed Roads	Y	Y	\$20,000

Asset Group (Asset Plan)	Asset Category	Asset Component	Asset Class (For Finance)	Capitalised	Depreciated	Capitalisation Threshold
						\$
	<b>Sealed Carparks</b> (Incl. carparks at airport & livestock exchange, off-road parking)	<i>Wearing Course - Asphalt</i>	<i>Sealed Roads</i>	Y	Y	\$10,000
		<i>Wearing Course - Spray Seal</i>	<i>Sealed Roads</i>	Y	Y	\$10,000
		<i>Pavement</i>	<i>Sealed Roads</i>	Y	Y	\$20,000
	<b>Kerb and Channel</b>	<i>Kerb and Channel</i>	<i>Sealed Roads</i>	Y	Y	\$10,000
	<b>Tramway Facilities</b>	<i>Tram Tracks &amp; points</i>	<i>Sealed Roads</i>	Y	Y	\$20,000
<b>STORMWATER DRAINAGE</b>	<b>Stormwater Drainage</b> (Incl. drainage networks at airport, livestock exchange, landfill and aquatic facility sites)	<i>Pipes</i>	<i>Drainage</i>	Y	Y	\$5,000
		<i>Pits &amp; Endwalls</i>	<i>Drainage</i>	Y	Y	\$5,000
		<i>Minor Culverts (Urban)</i>	<i>Drainage</i>	Y	Y	\$5,000
		<i>Open Channel Drains (Lined Only)</i>	<i>Drainage</i>	Y	Y	\$5,000
		<i>Gross Pollutant Traps</i>	<i>Drainage</i>	Y	Y	\$5,000
		<i>Drainage Pumps &amp; Housings</i>	<i>Drainage</i>	Y	Y	\$5,000
<b>UNSEALED ROADS</b>	<b>Unsealed Roads</b>	<i>Wearing Course (&gt;60mm depth)</i>	<i>Unsealed Roads</i>	Y	Y	\$10,000
		<i>Earthworks &amp; Formation</i>	<i>Unsealed Roads</i>	Y	N	\$10,000
	<b>Unsealed Carparks</b>	<i>Wearing Course (&gt;60mm depth)</i>	<i>Unsealed Roads</i>	Y	Y	\$10,000
		<i>Earthworks &amp; Formation</i>	<i>Unsealed Roads</i>	Y	N	\$10,000
	<b>Floodways</b>	<i>Concrete Floodways (Incl. E &amp; F)</i>	<i>Unsealed Roads</i>	Y	Y	\$10,000
		<i>Sealed Floodways – Spray Sealed</i>	<i>Unsealed Roads</i>	Y	Y	\$10,000
		<i>Sealed Floodways – Pavement (Incl. E &amp; F)</i>	<i>Unsealed Roads</i>	Y	Y	\$10,000

\*Note: Asset components, associated with a traffic island / roundabout installation, such as kerb and channel, pathway, pavement, wearing course, landscaping, irrigation, etc., will be capitalised separately under the relevant sections within this Asset Capitalisation Policy.