

# ASSET CAPITALISATION POLICY

## ADMINISTRATIVE POLICY



### 1 Scope

This policy applies to asset management activities of Rockhampton Regional Council.

### 2 Purpose

The purpose of this policy is to determine asset classes and set a monetary threshold value by asset class for the capitalisation of non-current assets for Rockhampton Regional Council.

### 3 Related Documents

#### 3.1 Primary

Nil

#### 3.2 Secondary

*Local Government Act 2009*

*Local Government Regulation 2012*

AASB 116 – Property, Plant and Equipment Accounting Standard

Asset Disposal Policy

Asset Management Policy

Framework for the Preparation and Presentation of Financial Statements Accounting Standard

### 4 Definitions

To assist in interpretation, the following definitions apply:

Asset	As defined in paragraph 49(a) of the Framework for the Preparation and Presentation of Financial Statements: A resource controlled by Council as a result of past events and from which future economic benefits are expected to flow to Council. Key features of an asset include: (a) Council must have control over the future economic benefits of the asset; (b) There was a past transaction or event which gave rise to the control of the future economic benefits; and (c) There must be future economic benefits expected to flow to Council.
Asset Class	Grouping of assets of a similar nature and use in its operations.

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Asset Measurement	The measurement of the value of an asset is its cost. As defined in paragraph 15 of the AASB116 – Property, Plant and Equipment Accounting Standard: (a) An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. (b) Notwithstanding the above, in respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.
Capital Expenditure	Expenditure used to procure, upgrade the capability, extend the life, or restore a non-current asset.
Council	Rockhampton Regional Council
Fair Value	As defined in the AASB116 – Property, Plant and Equipment Accounting Standard: The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Maintenance Expenditure	Expenditure to maintain the condition of a non-current asset to ensure it continues to operate at the current level of service until the end of its useful life to Council.
Networked Assets	A chain of interconnected but dissimilar assets connected for the provision of the one simultaneous service. Grouping similar or like-natured assets does not meet the definition of a network.
Non-current Assets	An asset of Council, other than land, that is not a current asset and has been recognised under this policy.

## 5 Policy Statement

### 5.1 Asset Recognition

An asset must appear in Council's financial statements only if it has been recognised. The criteria for recognising an asset as outlined in the AASB116 – Property, Plant and Equipment Accounting Standard is:

*The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:*

- (a) *It is probable that future economic benefits associated with the item will flow to the entity; and*
- (b) *The cost of the item can be measured reliably.*

The key elements of recognition are:

- (a) Probable future economic benefits – if Council considers that it is more likely than not that future benefits will be realised.
- (b) Reliably measured – generally the value of goods and services can be measured reliably by the price charged by the supplier, while constructed assets can be measured from labour and other costing systems. If the cost cannot be measured reliably, an asset should not be recognised.

### 5.2 Asset Measurement

Council records intangible assets and plant and equipment assets at cost with all other asset classes (as per paragraph 5.3) recorded at fair value.

### 5.3 Asset Classifications

Council has the following asset classes:

- (a) Land;
- (b) Buildings;

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- (c) Plant and equipment (including information technology equipment);
- (d) Roads infrastructure;
- (e) Stormwater drainage;
- (f) Bridge assets;
- (g) Water infrastructure;
- (h) Sewerage infrastructure;
- (i) Airport infrastructure;
- (j) Site improvements;
- (k) Heritage and cultural assets; and
- (l) Intangible assets.

#### 5.4 Capitalisation Thresholds

Section 224(8) of the *Local Government Regulation 2012* states that a valuable non-current asset has an apparent value that is equal to or more than a limit set by the local government. Council has set an amount below which the value of each different type of non-current physical asset must be treated as an expense:

Asset Class	Capitalisation Threshold
Land	\$1
Buildings	\$10,000
Plant and Equipment (including Information Technology Equipment)	\$5,000
Road Infrastructure	\$10,000
Stormwater Drainage	\$10,000
Bridge Assets	\$10,000
Water Infrastructure	\$10,000
Sewerage Infrastructure	\$10,000
Airport Infrastructure	\$10,000
Site Improvements	\$10,000
Heritage and Cultural Assets	\$10,000
Intangible Assets	\$10,000

#### 5.5 Capital Expenditure

##### 5.5.1 General

Where the expenditure is above the capitalisation threshold and is used to procure a new asset, upgrade the capability of the asset, extend the life of the asset, or restore the asset, the expenditure will be capital expenditure. The corresponding budget for this asset is held in the capital works budget.

Examples of general capital expenditure include, but are not limited to:

- (a) Purchase/construction of infrastructure;
- (b) Purchase/replacement of plant and equipment;
- (c) Purchase/resumption of land;
- (d) Addition of building extensions or partitions;

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- (e) Replacement of roof or bathroom facilities in a building;
- (f) Upgrade of air conditioning system to increase its capacity or extend its life; and
- (g) Direct project management expenses as part of the cost of the asset, particularly where Council is constructing or facilitating the construction of its own assets.

### 5.5.2 Networked Assets

Expenditure on networked assets for the purposes of procuring a new asset, upgrading the capability of the asset, extending the life or restoring the asset is classified as capital expenditure. If the total expenditure per project exceeds the capitalisation threshold, the project is capitalised irrespective of whether or not the individual asset components exceed the capitalisation threshold. Only assets that form a network or part of a network are to be grouped for capitalisation.

Networked assets can be classified as follows:

- (a) Roads and associated assets including kerb and channel, footpaths, cycleways and reseals or asphalt overlay of roads;
- (b) Drainage – including lined channels, underground culverts and pipe components;
- (c) Water and wastewater – underground pipe components, telemetry equipment, water meters and re-lining of pipes;
- (d) Communication equipment – including PABX, trunked radios, etc; (Note: personal computers and laptops are excluded); and
- (e) Heritage and cultural assets – assets incorporated into this class are distinct by nature and are treated as an entire collection.

### 5.5.3 Treatment of Scoping and Feasibility Studies

Whole of the project's budgeted within the medium term on Councils forward capital program, must also consider the scoping and feasibility costs as capital expenditure. Should the project not proceed this cost would be re-classified as an operational expense. Capital expenditure does not include a scoping feasibility study on its own.

## 5.6 Maintenance Expenditure

Where the expenditure is to ensure an asset continues to operate at normal capacity until the end of its life, it is regarded as maintenance/operational expenditure and the corresponding budget is held in the operating budget. Consideration as to whether or not expenditure is classified as maintenance will include:

- (a) The level of expenditure compared to the total replacement cost of the asset – as a general rule, where the expenditure is less than 10% of the total value of the asset component that is being replaced, it is considered maintenance;
- (b) Whether the expenditure has improved the fair value of the asset; and
- (c) The useful life of the improvement expenditure compared to the component/asset useful life – where improvements have substantially shorter useful lives to that of the assets, this is usually an indicator of maintenance expenditure.

## 5.7 Asset Disposal

Where physical non-current assets are disposed of during the financial period, the profit or loss on disposal of the asset is taken into account in the financial statements.

## 5.8 Asset Write Off

Where a physical non-current asset ceases to retain a future economic benefit to Council, due to loss, theft, damage, replacement, upgrade, obsolescence or other factors, the value of the asset is written down to a nil value and, if appropriate, disposed of in the period that the write off occurs.

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### 5.9 Management of Work In Progress

Work in progress balances are reviewed at least monthly to ensure they are cleared no later than six months after practical completion or prior to full revaluation of the pertinent asset class, whichever occurs first.

### 6 Review Timelines

This policy is reviewed when any of the following occur:

- (a) The related information is amended or replaced; or
- (b) Other circumstances as determined from time to time by the Council.

### 7 Document Management

Sponsor	Chief Executive Officer
Business Owner	Deputy Chief Executive Officer
Policy Owner	Chief Financial Officer
Policy Quality Control	Corporate Improvement and Strategy



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