POLICY NAME	ASSET CAPITALISATION POLICY
Date Adopted	28 May 2025
Resolution Number	76/25
Policy Custodian	Director Corporate Services
Policy Development Officer	Manager Finance and Technology
Review Date	May 2028 (3 years from resolution date)
Relevant Legislation	*Local Government Act 1993* *Local Government (Financial Management) Regulations 1999* Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards AASB 116 – Property, Plant and Equipment Australian Accounting Standards AASB 138 – Intangible Assets NSW Treasury Guidelines for Capitalisation of Assets
Related Documents	Asset Management Plans as adopted from time to time Annual Budget Long-Term Financial Plan

POLICY OBJECTIVES

The objectives of The Policy are to:

a) Establish recognition rules that define what constitutes an asset, and how assets are recognised for accounting and asset management purposes.
b) Define Council's capital expenditure threshold for asset capitalisation purposes, including required treatments of Complex, Minor, and Grouped Assets.
c) Define Council's accounting treatment of capital expenditure over the useful lives of its assets.
d) Provide clear definitions to enable accurate classification and reporting of maintenance, renewal, upgrade and new capital expenditure by Council.
e) Provide clear guidelines on the treatment of assets at the end of their life and the factors influencing the decommissioning and disposal of assets.

POLICY SCOPE

The policy applies to physical and intangible assets controlled or owned by Council and provides guidance on what expenditure should be costed to the capital works program.

The policy does not apply to cash, land, or heritage collections.

POLICY STATEMENT

Council is committed to best practice management of the Council's finances. The Policy aims to define activities undertaken by Council that are capital in nature. Where the capital expenditure relates to tangible assets, the Policy seeks to clarify how the capital expenditure shall be captured over the life of the asset, and how the asset will be treated at the end of its service life.

1. Asset Recognition Rules

Asset recognition

Council is required to evaluate all property, plant and equipment to be acquired or constructed, prior to the commencement of the procurement and/or project management process.

Asset Definition - Part A:

The Australian Accounting Standard AASB116 states that property plant and equipment will be recognised as an asset if it confers future economic benefits to the organisation and if the cost of the item can be measured reliably. Council's asset portfolio can be said to meet these criteria, because Council's assets deliver a service to the community into the future, and there are valuation methodologies in place.

Asset Definition - Part B:

Apart from the asset purpose (service potential), there are two other factors that dictate what constitutes an asset. Materiality is the second measure applied in AASB116, with the criteria used to determine materiality being acquisition cost and asset useful life.

- Acquisition Cost: If the cost to purchase or construct the asset falls below the capitalisation thresholds, then the acquisition is not an asset (with some exceptions, as set out in the Policy).
- Useful Life: If the benefit (the provision of services), conferred by the acquisition to the community will be less than one year, the acquisition is not an asset.

Assets on land that council manages

Council also funds and manages buildings and lesser structures that exist to service other community service-based entities. Other less prominent, but equally important community organisations also utilise Council-funded building assets.

Although these assets do not meet the AASB 116 criteria of providing economic benefit to Council, they do provide a service to the community-based organisations that benefit from provision of these assets. Such assets are required to be tested for control if:

- Council can deny or regulate access to the asset
- The asset is held to meet council objectives, and
- Council enjoys the majority of the risks and benefits.

These assets satisfy the criteria; they are recognised and managed in the same manner as Council's asset portfolio that does meet the AASB116 recognition criteria.

Assets acquired at no cost to Council

Assets contributed to Council shall be recognised at fair value and subsequently managed in the same way as those funded by Council's capital works budgets.

Assets renewed at no cost to Council

Existing assets are from time to time renewed at no cost to Council. In most cases, these are assets that have been replaced under an insurance claim.

Any such assets should be recognised and subsequently managed in the same way as those funded by Council's capital works budget, even if these assets fall outside of the recognition criteria. This is because the value of the work can be attributed to an existing asset, or the changes to those existing assets should be captured in Council's asset register.

Assets constructed by council under private works

Council may on occasion modify or renew existing assets, and construct or install new assets, with these assets being charged to a paying customer (Private Works). Any assets funded by private works shall be recognised, even if these assets fall outside of the recognition.

This is because the value of the work can be attributed to an existing asset, or the changes to those existing assets should be captured in Council's asset register.

2. Asset and Asset Component Types

Complex assets

Complex assets are those that consist of a number of related parts or elements that collectively provide a service, or part of a service. AASB116 requires complex assets to be componentised in a way that recognises the diverse functions of each component. Therefore, it can be said that the level of asset componentisation is determined by the functional purpose, materiality, dimensions, and/or the useful life of the asset.

Such componentisation is defined as a unit of account in AASB116. Units of account permit more accurate asset renewal planning, reporting, valuation and depreciation activities.

Simple assets

Simple assets are those that have no components that can be identified by purpose, material, valuation unit rate, or useful life. Simple assets may be subject to a lesser capitalisation threshold, with judgement being required by a suitably qualified person.

Grouped assets

Grouped assets are a number of assets that are recognised as a single asset in Council's asset register. The term 'Grouped' has been used to avoid confusion around the term 'Network' which is sometimes used to describe a group of assets that deliver a specific service (e.g., Road Network, Water Supply Network).

For the purposes of The Policy, any of these terms will be understood to mean a grouping of assets that individually fail to meet the capitalisation threshold but are integral to a service delivered by another asset or assets.

Grouped assets are capitalised as a single asset for a given financial year, but in some cases, there may be a number of assets created in a given financial year for network assets of the same type. Water meters are such an example, where meters are aggregated by size (and therefore unit rate value) - 25mm, 32mm, 50mm and so on.

Grouped assets with a single financial record

Some low value assets need to be recognised individually so that a link between Council's GIS and Asset databases can be established. Example: road signs.

These assets will be recognised as a distinct asset in Council's financial register, with a many-to-one relationship between the asset records and Council's financial record (capital value record (CVR)). The many-to-one relationship will be based on the facility and/or location of the assets, with a separate CVR being created for assets procured for a given financial year.

3. Capitalisation Guidelines

Threshold

The capitalisation threshold shall apply to all procurement events or projects, whether they be for the acquisition of new assets, or the renewal and/or upgrade of existing assets.

A capitalisation threshold of $10,000 is applicable to all complex assets, with a lesser threshold of $5,000 applicable to simple assets. See Table 1 for thresholds of grouped and land assets.

Grouped assets are not subjected to the capitalisation threshold requirement. Grouped assets shall be procured under the capital works program regardless of the cost for a single unit. All grouped asset procurements for a given financial year shall be costed to the same general ledger number, except for those grouped asset procurements funded by private works.

All elements of a capital works acquisition or project should be costed to the General Ledger code created for that acquisition or project. Note that even though planning and feasibility studies of a project may be expensed, these costs should be captured for reporting purposes. This will be against the general ledger code created for the construction phase of the project.

Capital works with intangible outcomes

Council may undertake projects that do not result in tangible outcomes, that is, expenditure that does not result in an asset that would meet the recognition criteria.

Such projects include (but are not restricted to) structural inspections, business improvements, and valuation projects. If these activities meet or exceed the capitalisation threshold, they will be costed to capital works and managed under the guidelines set out in the Project Management Framework (PMF). At the completion of the project, analysis of expenditure should be undertaken to determine whether any aspects of the expenditure can be aligned to an asset. If not, the costs incurred shall be expensed.

AASB116, paragraph 14 provides guidance by stating that major inspections of infrastructure should be capitalised if they meet or exceed capitalisation guidelines. In that case, the inspection cost will be reflected in the asset value by virtue of an adjustment in the carrying amount of the asset, with the carrying amount of the previous inspection being derecognised.

Recognition of intangible assets

AASB138, paragraph 9 states that intangible resources may be broadly categorised as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks.

AASB138 goes on to state that the same recognition rules as those applied to physical assets are equally applicable to intangible assets. Indeed, as mentioned in paragraph 10 AASB 138, for an intangible asset, three criteria must be met:

1. An item must be identifiable,
2. There must be control over a resource, and
3. Existence of future economic benefit.

In the context of Council's operations, the main intangible assets acquired by Council are software and licences. These products would usually meet requirements of identifiability and existence of future economic benefits. However, the requirement of control over those benefits would probably not be met on the ground that council usually gets access for use of the software but not a control over it.

Therefore, as a rule of thumb, all software products used by the councils are formed as software as a service (Saas) agreements which do not meet asset recognition criteria. As a result, all acquisition and license expenditure should be expensed.

Asset capital project classifications

It is a requirement to identify the nature of the capital works being undertaken under any given procurement event or project. There are three classifications accountants report on:

- New - Newly constructed assets.
- Renewal - Projects replacing or refurbishing existing assets to the same standard.
- Upgrade - Projects that remove or enhance an existing asset and construct a new asset that performs at a greater capacity or standard than the redundant asset.

In some cases, a project may see costs divided across more than one of these classifications. In that case, an estimate is made of what proportion of the project cost should be aligned to each classification.

4. Operating and Maintenance Costs

Operating and maintenance costs can be defined as recurring costs for tasks and materials that ensure that an asset continues to operate at its defined level of service, without altering its condition or service life. Steps must be taken to identify operational and maintenance costs for the assets that Council manages.

5. Capital Works - Project Completion

On completion of a capital works project, detailed information must be returned to the finance team. Alternatively, a Project Completion Report containing all the detailed information can be prepared.

This information is required by Council to:

- create and dispose of assets within the asset register,
- close out relevant work orders within the finance system,
- update appropriate layers in Council’s geographical information system, and
- ensure that the asset values reported within Council’s annual financial statements are correct.

6. Asset Decommissioning and Disposal

Policy overview

The Independent Commission Against Corruption (ICAC) advise that public sector agencies that regularly dispose of depreciated, redundant or excess stock need to ensure they have standardised methods to manage the disposal of unwanted resources in a transparent and accountable manner.

The Policy directs Council activities to openly and transparently dispose of assets that have reached the end of their useful life or are deemed to be surplus to Council's needs. In doing so, Council must aim to:

- Provide a systematic and transparent method for the timely disposal of assets.
- Ensure an appropriate level of discipline for asset disposal, and compliance with any legal or policy requirements, is applied across the organisation.
- Ensure that best value for money is achieved.
- Ensure that conflicts of interests are managed in accordance with Council's Code of Conduct.
- Promote fair and effective competition to the greatest extent.
- Apply best practice in relation to sustainability and environmental considerations.

The decision to dispose of an asset may be based on one or more of the following:

- Asset is at the end of its useful life.
- Asset is under-utilised.
- Asset is surplus to operational requirements.
- Asset is not fit for purpose.
- Asset is no longer serviceable.
- Asset no longer meets legislated requirements.

This policy does not cover the disposal of Council owned property.

Elements

<u>Element 1- decommissioning</u>

- The permanent removal, decommissioning or abandonment of the whole asset, or
- The temporary removal or decommissioning of the whole asset or part of an asset, with the possibility of re-commissioning at a later date.

<u>Element 2 - disposal</u>

- The recovery of the residual value of the whole asset by a sales process, or
- The physical disposal of the whole asset without the realisation of any cash value. This may be by moving salvageable asset components into a spares inventory, disposal to landfill, or by donation to a suitable entity.

Element 3 – partial disposal

- The permanent removal or abandonment of part of an asset.

Asset decommissioning/disposal rules

- Approval from the appropriate manager (in line with financial delegations) must be sought prior to the decommissioning, disposal of or partial disposal of an asset. The approval, process and justifications will be documented and retained by finance.
- All assets decommissioned, disposed of, or partially disposed of must be reported to Council's finance team within 28 days.

POLICY DEFINITIONS

Asset Accounting	Resources controlled as a result of past events and from which future economic benefits are expected to flow.
Asset	A resource or amenity that provides a service to Council and/or the community, which can be valued, and will be in commission for greater than one year.
Current Assets	Refers to items that provide economic benefits for less than 12 months. Expenditure relating to Current Assets is expensed as either Maintenance Expenditure or Operating Expenditure, with the exception of group/network assets.
Non-Current Assets	Include physical assets which provide future economic benefits for more than 12 months, and that meet the recognition criteria in this policy.
Capital Expenditure	Material expenditure which has benefits expected to last for more than 12 months. Capital expenditure includes renewal/replacement, upgrade/expansion and new works.
Renewal Capital Expenditure	Expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability. Examples include resurfacing or re-sheeting part of a road network, replacing a section of a drainage network with pipes of the same capacity, and resurfacing an oval.
Upgrade Capital Expenditure	Expenditure on an existing asset that: a) enhances the asset to provide a higher level of service; or b) increases the life of the asset beyond its original life. Examples include widening the sealed area of an existing road, replacing drainage pipes with pipes of a greater capacity, and enlarging a grandstand at a sporting facility.
New Capital Expenditure	Expenditure that creates a new asset that provides a service that does not currently exist. Examples include extending a drainage or road network, and the provision of an oval or park in a new suburb for new residents.
Maintenance Expenditure	Recurrent expenditure on an asset, periodically or regularly required, undertaken to ensure the asset achieves its useful life. Includes reactive maintenance and repairs (pothole patching, painting etc.), planned maintenance (repairs based on predetermined schedules, such as grading), and replacement of parts and/or asset sub-components, such as electrical switching.
Operating Expenditure	Recurrent expenditure, which is continuously required to provide a service, excluding maintenance and depreciation.

	Examples include power, fuel, staff, materials, cleaning, minor equipment, on-costs and overheads.
Recognition	Occurs when it is probable that the future economic benefits will flow to the organisation and the asset has a cost or value that can be measured reliably.
Fair Value	The cost to replace the asset.
Carrying Amount	The depreciated value of an asset at a given point in time.
Residual Value	The value that could be recovered from an asset at the end of its life, less costs to decommission and remove.
Depreciable Amount	The current cost less the residual value.
Useful Life	The projected service life of the asset.
Impairment	The premature reduction in the service life of the asset. In accounting terms, this results in the accelerated depreciation of the asset, with the difference between the current cost and the residual value (at that point in time) being written down.

VERSION CONTROL AND CHANGE HISTORY

Previous Versions	Date of Adoption by Council	Resolution #	Author/Editor	Summary of Changes
V.1	28/05/25	76/25	Manager Finance & Technology	New Policy

Table 1 Asset hierarchy with capitalisation Thresholds - summary

Asset Group	Asset Type	Recognition type	Threshold
Buildings and recreation	Aerodrome	Complex	
	Community buildings	Complex	No
	Council owned buildings	Complex	No
	Heritage listed buildings	Complex	No
	Parks and reserves	Complex	No
	Signage	Grouped	No
	Sports fields	Complex	No
	Swimming pool	Complex	
	Other structures	Complex	
Community	Public Art	Simple	
	Cemeteries	Complex	No
Furniture and fittings	Office furniture	Simple or grouped	
	White goods	Simple or grouped	
	Fittings	Simple or grouped	
Information Communications Technology (ICT) equipment	Hardware	Simple	
	Office equipment	Simple or grouped	
Land	Council owned land	simple	all
Plant and equipment	Fleet	Simple	
	Heavy plant	Simple	
	Light Plant	Simple	
Transport and stormwater	Roads – sealed	Complex	
	Roads – unsealed	Complex	

Asset Group	Asset Type	Recognition type	Threshold
	Kerb and gutter	simple	
	Signage	Grouped	No
	Roadside furniture	Grouped	No
	Bridges	Complex	
	Stormwater network	Complex	No
Water and sewer	Treatment Plant	Complex	
	Pumping station	Complex	
	Sewer Supply network	Complex	No
	Water supply network	Grouped	No